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## Knocking Out Knock-Offs: Effectuating the Criminalization of Trafficking in Counterfeit Goods

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## Knocking Out Knock-Offs: Effectuating the Criminalization of Trafficking in Counterfeit Goods

### Cover Page Footnote

Mom, Dad, and sister Marisa, Daniel Richman, Nicole Serratore, Alyson Apicelli

## NOTES

# Knocking Out Knock-Offs: Effectuating the Criminalization of Trafficking in Counterfeit Goods

Lauren D. Amendolara<sup>\*</sup>

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## INTRODUCTION

As the American economy becomes increasingly reliant on all forms of intellectual property (“IP”),<sup>1</sup> the Department of Justice has focused its efforts on restricting infringement of IP rights.<sup>2</sup>

<sup>1</sup> See COMPUTER CRIME & INTELL. PROP. SECTION OF THE CRIMINAL DIV. OF THE U.S. DEP’T OF JUSTICE, FEDERAL PROSECUTION OF VIOLATIONS OF INTELLECTUAL PROPERTY RIGHTS (COPYRIGHTS, TRADEMARKS AND TRADE SECRETS) 1 (1997) [hereinafter FEDERAL PROSECUTION MANUAL], at [http://www.cybercrime.gov/intell\\_prop\\_rts/toc.htm](http://www.cybercrime.gov/intell_prop_rts/toc.htm) (last updated Sept. 2, 1997). Ironically, many American products are subject to counterfeiting due to the strong nature of our economy. See PAUL R. PARADISE, TRADEMARK COUNTERFEITING, PRODUCT PIRACY, AND THE BILLION DOLLAR THREAT TO THE U.S. ECONOMY ix (1999).

<sup>2</sup> See *International Copyright Piracy: A Growing Problem with Links to Organized Crime and Terrorism: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the House Comm. on the Judiciary*, 108th Cong. 5 (2003) [hereinafter *International Copyright Piracy Hearing*] (statement of John G. Malcolm, Deputy Assistant Attorney General, Criminal Div., U.S. Dep’t of Justice), at

Counterfeit goods and services, the most pervasive area of trademark infringement, accounted for approximately nine percent of the current market of goods in 2003, a percentage that has been estimated to double by the end of 2005.<sup>3</sup> The total value of counterfeit goods being trafficked in the United States is escalating dramatically; in 1996, illegal counterfeiting cost U.S. businesses over \$200 billion in possible revenues.<sup>4</sup> That same year, Congress reported that counterfeit merchandise “(1) has been connected with organized crime; (2) deprives legitimate trademark and copyright owners of substantial revenues and consumer goodwill; (3) poses health and safety threats to United States consumers; (4) eliminates United States jobs; and (5) is a multibillion-dollar drain on the United States economy.”<sup>5</sup> Today, U.S. government agencies estimate that trafficking in counterfeit goods and services has increased to a \$500 billion per year business for criminals.<sup>6</sup>

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[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108\\_house\\_hearings&docid=f:85643.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_house_hearings&docid=f:85643.pdf) (last visited Apr. 3, 2005).

<sup>3</sup> Timothy W. Maier, *Counterfeit Goods Pose Real Threat*, INSIGHT ON THE NEWS (Oct. 30, 2003) (noting statistics by Carratu International PLC, a firm which investigates intellectual property crimes), <http://www.insightmag.com/news/2003/11/11/world/Counterfeit.Goods.Pose.Real.Threat-539999.shtml>. But see Press Release, U.S. Dep’t of Commerce, Strategy Targeting Organized Piracy (STOP!) (Oct. 5, 2004) (“Bogus products . . . are estimated to account for up to seven percent of global trade and cost legitimate rights holders around the world billions of dollars annually.”), [http://www.commerce.gov/opa/press/Secretary\\_Evans/2004\\_Releases/October/05\\_STOP\\_FactSheet.htm](http://www.commerce.gov/opa/press/Secretary_Evans/2004_Releases/October/05_STOP_FactSheet.htm) (last visited Mar. 25, 2005).

<sup>4</sup> See Michael Coblenz, *Intellectual Property Crimes*, 9 ALB. L.J. SCI. & TECH. 235, 240 (1999) (discussing the legislative history behind the Anticounterfeiting Consumer Protection Act of 1996). The International AntiCounterfeiting Coalition estimated that overall losses for U.S. industries from counterfeiting in 1995 were \$200 billion, while \$86 billion was lost by U.S. industries due to counterfeiting in 1988. See, e.g., PARADISE, *supra* note 1, at 21. This shows the significant increase in counterfeit trafficking over a seven year period. See *id.*

<sup>5</sup> *International/Global Intellectual Property Theft: Links to Terrorism and Terrorist Organizations: Hearing Before the House Comm. on Int’l Relations*, 108th Cong. (2003) [hereinafter *Trainer Testimony*] (written testimony of Timothy P. Trainer, President, International AntiCounterfeiting Coalition, Inc.) (citing 142 U.S. CONG. REC. S6302-01 (daily ed. June 14, 1996), reporting on the Anticounterfeiting Consumer Protection Act of 1995), [http://wwwa.house.gov/international\\_relations/108/tra0716.htm](http://wwwa.house.gov/international_relations/108/tra0716.htm) (July 16, 2003).

<sup>6</sup> See Maier, *supra* note 3.

Trademarks are “the currency of modern commerce,”<sup>7</sup> and require increased protection. While various U.S. agencies have adopted a policy against trademark counterfeiting, it remains unclear whether the federal government truly regards this illegal activity as a serious problem. Accordingly, Part I of this Note traces the statutory history of trademark protection in the United States, from the civil sanctions of the Lanham Act of 1946<sup>8</sup> to the criminal sanctions imposed by the Trademark Counterfeiting Act of 1984<sup>9</sup> and the Anticounterfeiting Consumer Protection Act of 1996<sup>10</sup> (an amendment to the Racketeer Influenced and Corrupt Organizations Act (“RICO”)).<sup>11</sup> Part I also examines how the judiciary will punish trademark counterfeiting with higher sentences under statutes other than the Trademark Counterfeiting Act of 1984.

Part II discusses the current situation of counterfeit goods entering the United States despite the efforts of the legislature and private organizations. There are various instances where the federal government will react quickly to the sale of counterfeit goods, specifically if the merchandise threatens the public’s health; yet, it is usually the victimized companies, not the federal government, that spearhead the investigations which lead to major arrests and confiscation of counterfeit goods. The problem with ersatz items entering the U.S. market is furthered by the reality that most enforcement agents and purchasers of counterfeit merchandise do not take the crime of trademark counterfeiting, or the associated penalties, seriously and that the current remedial measures, such as educating the public, are insufficient.

Part III of this Note argues that new legislation and enforcement strategies are necessary to stabilize the situation as overwhelming numbers of counterfeit goods continue to enter the

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<sup>7</sup> COMPUTER CRIME & INTELL. PROP. SECTION OF THE CRIMINAL DIV. OF THE U.S. DEP’T OF JUSTICE, PROSECUTING INTELLECTUAL PROPERTY CRIMES MANUAL § II (2001) [hereinafter IP CRIMES MANUAL], at <http://www.cybercrime.gov/ipmanual.htm>.

<sup>8</sup> Pub. L. No. 79-489, 60 Stat. 427 (codified as amended at 15 U.S.C. §§ 1051–1129 (2002)).

<sup>9</sup> Pub. L. No. 98-473, 98 Stat. 2178 (codified as amended at 18 U.S.C. § 2320 (2002)).

<sup>10</sup> Pub. L. No. 104-53, 110 Stat. 1386 (codified as amended in scattered sections of 15, 17, 18, 19, 49 U.S.C. (2000 & Supp. 2001)).

<sup>11</sup> 18 U.S.C. §§ 1961–1968 (2000).

American marketplace. Section 2320 of the Trademark Counterfeiting Act of 1984 should be strengthened by placing some liability on knowing purchasers of counterfeit goods, amending the current language to expand the types of goods protected, and effectively enforcing the penalties for counterfeit goods trafficking provided in the statute. Federal enforcement agencies need to work more efficiently, as well as coordinate, with state agencies. Additionally, the federal government should tap into the resources that private companies are already using to protect themselves against infringement. The government speaks of trafficking in counterfeit goods in serious terms,<sup>12</sup> but if the government really wants to decrease the number of counterfeit goods being trafficked, it needs to act in accord with state policy by instituting a clearer, more organized statute and agenda.

#### I. STATUTORY HISTORY OF TRADEMARK PROTECTION IN THE UNITED STATES

Even though the branding of products with marks has been in practice since the Middle Ages,<sup>13</sup> criminalizing the counterfeiting of marks in the United States developed in the last century<sup>14</sup> and has taken a primary role in lawmaking only in the last two decades.<sup>15</sup> Originally, trademarks were protected by the civil sanctions and remedies of the Lanham Act of 1946.<sup>16</sup> In passing the Act, Congress acknowledged that as a matter of public policy, trademarks needed protection by the government.<sup>17</sup> Under the Lanham Act, a trademark is defined as:

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<sup>12</sup> “The Bush administration’s top trade and law enforcement officials yesterday said they would make life ‘miserable’ for companies that manufacture and sell counterfeit goods around the world.” Jeffrey Sparshott, *Piracy Targeted by U.S. Officials*, WASH. TIMES, Oct. 5, 2004, at C07.

<sup>13</sup> See FEDERAL PROSECUTION MANUAL, *supra* note 1, at 51.

<sup>14</sup> See BANKOLE SODIPO, *PIRACY AND COUNTERFEITING: GATT, TRIPS AND DEVELOPING COUNTRIES* 229 (1997).

<sup>15</sup> See IP CRIMES MANUAL, *supra* note 7, at Introduction.

<sup>16</sup> Trademark Act of 1946, Pub. L. No. 79-489, 60 Stat. 427 (codified as amended at 15 U.S.C. §§ 1051–1129 (2002)).

<sup>17</sup> See, e.g., PARADISE, *supra* note 1, at 6.

any word, name, symbol, or device, or any combination thereof— (1) used by a person, or (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.<sup>18</sup>

Today's description of a trademark is much broader than the original language. Prior to a 1988 amendment,<sup>19</sup> the Lanham Act defined trademarks in terms of use by a manufacturer or merchant.<sup>20</sup> But by 1988, trademarks defined their place as the backbone of American businesses, and Congress realized protection was needed on a wider scale. By broadening the meaning of trademarks to include use by any person, Congress enabled the statute to apply, on its face, in cases brought by a wider variety of plaintiffs, beyond those who fell within the definition of manufacturer or merchant.

The civil remedies imposed by the Lanham Act were thought sufficient to compensate victims and punish offenders of intellectual property crimes.<sup>21</sup> The act provided for sanctions against a trademark infringer including forfeiture of profits to the victim; seizure and destruction of all counterfeit merchandise; seizure of methods of producing the counterfeit merchandise; court costs and attorney's fees; and treble damages to compensate the victim for past infringement.<sup>22</sup> It soon became clear to the legislature, however, that "counterfeiters regarded civil penalties as

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<sup>18</sup> 15 U.S.C.A. § 1127 (West Supp. 2004).

<sup>19</sup> Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3946 (amending 15 U.S.C. §§ 1051–1127) (1988).

<sup>20</sup> See Trademark Act of 1946 ("The term 'trademark' includes any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others.").

<sup>21</sup> Cf. FEDERAL PROSECUTION MANUAL, *supra* note 1, at 1, 60 ("Before . . . 1984, there were no federal criminal penalties for trademark counterfeiting.").

<sup>22</sup> See PARADISE, *supra* note 1, at 8.



the ‘cost of doing their illegal business.’”<sup>23</sup> Criminal prosecutions of such offenses, specifically trafficking in counterfeit goods, became necessary to deter new offenders and to adequately punish continuous offenders whose illegal activities were undiscouraged despite civil sanctions.<sup>24</sup>

In addition to the fact that civil sanctions did not deter infringers, “[t]he manner in which counterfeiters operate does not lend itself to standard civil remedies.”<sup>25</sup> Many traffickers work in small, local operations with no formal organization.<sup>26</sup> Once they become aware that they are being investigated or that there is a pending motion for injunction, traffickers will pick up and move their merchandise almost effortlessly.<sup>27</sup> Imposing severe fines and jail time for counterfeit goods trafficking was necessary to show the seriousness of the U.S. government’s approach toward punishing crimes against intellectual property.<sup>28</sup> Without criminal sanctions, the only way a prosecutor could indict infringers was if their operations were substantial enough to include other crimes for which they could be charged, such as violations against RICO or interstate commerce acts.<sup>29</sup>

*A. The Need for Criminal Sanctions: The Trademark Counterfeiting Act of 1984*

Trademark counterfeiting became a large problem for the U.S. government in the 1970s.<sup>30</sup> The Lanham Act of 1946, which made no mention of trafficking in counterfeit trademarked merchandise,<sup>31</sup> has proven over time to be an insufficient deterrent.

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<sup>23</sup> David J. Goldstone & Peter J. Toren, *The Criminalization of Trademark Counterfeiting*, 31 CONN. L. REV. 1, 10 (1998) (quoting S. REP. NO. 98-526, at 5 (1984), reprinted in 1984 U.S.C.C.A.N. 3627, 3631) (noting one of Congress’ reasons for passing the Trademark Counterfeiting Act of 1984).

<sup>24</sup> See FEDERAL PROSECUTION MANUAL, *supra* note 1, at 1.

<sup>25</sup> Lucas G. Paglia & Mark A. Rush, *End Game: The Ex-Parte Seizure Process and the Battle against Bootleggers*, 4 VAND. J. ENT. L. & PRAC. 4, 5 (2002).

<sup>26</sup> See *id.*

<sup>27</sup> See *id.*

<sup>28</sup> See FEDERAL PROSECUTION MANUAL, *supra* note 1, at i–1.

<sup>29</sup> See PARADISE, *supra* note 1, at 18.

<sup>30</sup> See *id.* For information regarding the various types of merchandise being counterfeited, see discussion *infra* Part II.A.

<sup>31</sup> See PARADISE, *supra* note 1, at 17.

From 1977 until 1984, counterfeit merchandise caused U.S. businesses to lose approximately \$100 billion.<sup>32</sup> The American economy stood to lose much more in revenues and taxes without stronger legislation.<sup>33</sup>

Industry groups such as the International AntiCounterfeiting Coalition ("IACC"), an organization formed "solely to combat[] product counterfeiting and piracy,"<sup>34</sup> lobbied hard for criminal penalties of trademark crimes, especially in areas not adequately covered by the Lanham Act.<sup>35</sup> In response, Congress enacted 18 U.S.C. § 2320, the Trademark Counterfeiting Act of 1984,<sup>36</sup> having finally realized that civil penalties were too weak and rarely enforced to address the growing problem of trademark counterfeiting.<sup>37</sup>

Liability under § 2320 is a more stringent standard to meet than the standard for civil sanctions under the Lanham Act.<sup>38</sup> A mark is infringed under the Lanham Act if someone other than the owner or registrant uses the mark in a manner which "is likely to cause

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<sup>32</sup> See *id.* at 19.

<sup>33</sup> See generally *id.*

<sup>34</sup> INT'L ANTICOUNTERFEITING COALITION, WHITE PAPER, THE NEGATIVE CONSEQUENCES OF INTERNATIONAL INTELLECTUAL PROPERTY THEFT: ECONOMIC HARM, THREATS TO THE PUBLIC HEALTH AND SAFETY, AND LINKS TO ORGANIZED CRIME AND TERRORIST ORGANIZATIONS (2005), at <http://www.iacc.org/WhitePaper.pdf>. "The IACC is the largest U.S. based organization that represents exclusively the interest of companies concerned with product piracy and counterfeiting." Press Release, International AntiCounterfeiting Coalition, Goods are Fakes, but the Threat is Real (Mar. 23, 2004), <http://www.iacc.org/PR032304.pdf> (last visited Mar. 25, 2005).

<sup>35</sup> See PARADISE, *supra* note 1, at 18. "The IACC was formed in 1978 by the Levi Strauss Co. and 15 other companies that were seriously endangered by commercial counterfeiting. By 1985, its membership had grown to more than 300 major corporations, associations, and professional firms worldwide." *Id.*

<sup>36</sup> See *id.*

<sup>37</sup> See *United States v. Baker*, 807 F.2d 427, 428 (5th Cir. 1986) (quoting S. REP. NO. 98-26, at 5 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3182, 3627, 3631). Yet, because trademark infringement was without strong penalties until 1984, the problem has currently escalated to an almost uncontrollable level with "no sign of receding." See PARADISE, *supra* note 1, at 19.

<sup>38</sup> See Coblenz, *supra* note 4, at 272-73. Section 2320 expressly omits "overrun" goods from the designation of what constitutes trademark counterfeiting. See IP CRIMES MANUAL, *supra* note 7, § II.C. Overrun goods are the excess a manufacturer produces above the contracted amount. See *id.*

confusion, or to cause mistake, or to deceive.”<sup>39</sup> Civil cases can include prosecutions for unauthorized use of a brand name on any kind of merchandise.<sup>40</sup> In contrast, criminal prosecutions involve marks, which are indistinguishable from the registered original, on merchandise upon which the mark would normally be found.<sup>41</sup> Yet, the federal government intended that the definitions for counterfeit marks in both § 2320 and the Lanham Act “be identical in substance.”<sup>42</sup> Even though § 2320 clearly reflects Congress’ objective to strongly protect trademarks,<sup>43</sup> the narrow standard for criminal infringement was adopted to prevent the possibility of someone being found criminally liable under § 2320 where they would not be subject to civil sanctions.<sup>44</sup> Thus, “[a]ll defenses, affirmative defenses, and limitation on remedies” for civil trademark infringement apply to § 2320,<sup>45</sup> presumably due to the stiffer penalties imposed when criminal liability is found.<sup>46</sup> The availability of civil defenses, however, limits the enforcement and prosecution of criminal trademark infringement, and the federal government suggests to its prosecutors that if civil defenses can be raised, the case “should not be prosecuted criminally.”<sup>47</sup>

<sup>39</sup> Coblenz, *supra* note 4, at 272–73 (quoting 15 U.S.C. § 1114(1) (1999)).

<sup>40</sup> *See id.* at 273 (using the example of “Rolex” on T-shirts).

<sup>41</sup> *See id.* (using the example of “Rolex” on watches). Defendants often argue that no consumer would mistake a knock-off for the real merchandise. *See id.* at 275. Courts, however, hold that the issue is not one of the immediate purchaser; if anyone would be confused by the merchandise, even in the post-sale context, the defendant can be liable. *See id.*

<sup>42</sup> FEDERAL PROSECUTION MANUAL, *supra* note 1, at 57 (identifying the seven requirements, under both statutes, of a counterfeit mark); *see also* United States v. Gonzalez, 630 F. Supp. 894, 896 (S.D. Fla. 1986) (“This court will not deny the existence of a relationship between the Trademark Counterfeiting Act of 1984 and the civil provisions of the Lanham Act.”).

<sup>43</sup> *Cf.* FEDERAL PROSECUTION MANUAL, *supra* note 1, at 1 (“[P]rotecting Intellectual Property Rights . . . is a major concern of the United States.”).

<sup>44</sup> *See id.* at 59; *see also* United States v. Hon, 904 F.2d 803, 806 (2d Cir. 1990) (“Section 2320 is, of course, ‘narrower’ than the Lanham Act provision.”).

<sup>45</sup> 18 U.S.C. § 2320(c) (2002). “[T]he defendant shall have the burden of proof, by a preponderance of evidence, of any such affirmative defense.” *Id.* Lanham defenses, although available, are rarely used by criminal defendants; from 1984 to 1998, there was no reported criminal case where the defenses were asserted. *See* Goldstone & Toren, *supra* note 23, at 44.

<sup>46</sup> *See generally* FEDERAL PROSECUTION MANUAL, *supra* note 1, at 59.

<sup>47</sup> *Id.*

In September 1994, Congress amended the sanctions available under § 2320.<sup>48</sup> The original penalties mandated that a criminally liable individual defendant would be fined not more than “\$250,000 or imprisoned not more than five years, or both, and, a person other than an individual, be fined not more than \$1,000,000.”<sup>49</sup> If the defendant had already been convicted under another section of the statute, he could be liable for “\$1,000,000 or imprisoned not more than fifteen years, or both, and if other than an individual, [could] be fined not more than \$5,000,000.”<sup>50</sup> The 1994 amendment significantly increased the fines and jail sentences by stating:<sup>51</sup>

Whoever intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark on or in connection with such goods or services shall, if an individual, be fined not more than \$2,000,000 or imprisoned not more than 10 years, or both, and, if a person other than an individual, be fined not more than \$5,000,000. In the case of an offense by a person under this section that occurs after that person is convicted of another offense under this section, the person convicted, if an individual, shall be fined not more than \$5,000,000 or imprisoned not more than 20 years, or both, and if other than an individual, shall be fined not more than \$15,000,000.<sup>52</sup>

The stiffer penalties were another indication that the legislature was seriously trying to address trafficking in counterfeit goods. Congress, in both the Lanham Act and Trademark Counterfeiting Act, was not merely trying to protect consumers by providing them with equitable remedies.<sup>53</sup> The statutes strive to protect the trademarks themselves, so that marks, and subsequently the

<sup>48</sup> Violent Crime Control and Law Enforcement Act of 1994, Pub. L. No. 103-322, § 320104(a), 108 Stat. 1796, 2110 (codified as amended at 18 U.S.C. § 2320(a) (2002)).

<sup>49</sup> *Id.* § 320104(a)(1); *see also* 18 U.S.C. § 2320(a).

<sup>50</sup> Violent Crime Control and Law Enforcement Act of 1994 § 320104(a)(2); *see also* 18 U.S.C. § 2320(a).

<sup>51</sup> *See* Violent Crime Control and Law Enforcement Act of 1994 § 320104(a).

<sup>52</sup> 18 U.S.C. § 2320(a).

<sup>53</sup> *See United States v. Gonzalez*, 630 F. Supp. 894, 896 (S.D. Fla. 1986) (analyzing the legislative intent behind the civil and criminal statutes for trademark infringement).

products to which they are attached, are not “cheapen[ed] and dilut[ed].”<sup>54</sup> Congress even went so far as to require the Attorney General of the United States to create a special annual report stating the statistics for trademark violations.<sup>55</sup>

To prosecute someone under the criminal counterfeiting statute, the trademark must be registered with the U.S. Patent and Trademark Office.<sup>56</sup> Registration is a “jurisdictional prerequisite” and an “essential element” to the crime.<sup>57</sup> The defendant does not need knowledge of the mark’s registration to be prosecuted.<sup>58</sup> The Trademark Counterfeiting Act also authorizes the seizure of the defendant’s goods without notice.<sup>59</sup> Requiring notice would undermine the statute’s objective, since traffickers would be able to move the counterfeit merchandise to another location.<sup>60</sup> Although § 2320 does not require there be a particular victim or that the products being trafficked be of a lesser quality than the genuine product for prosecution, it sets forth a two part *mens rea* test.<sup>61</sup>

In *United States v. Baker*,<sup>62</sup> Paul Baker was charged under § 2320 for selling counterfeit Rolex watches.<sup>63</sup> Even though Baker admitted to intentionally dealing in what he knew to be counterfeit merchandise, he argued that § 2320 required that he have actual knowledge that his conduct was criminal.<sup>64</sup> This was an issue of first impression in the Fifth Circuit, so the court looked to the

<sup>54</sup> *Id.* For examples of why this is a danger, see discussion *infra* Part II.A.2–3.

<sup>55</sup> See 18 U.S.C. § 2320(f) (2002).

<sup>56</sup> See FEDERAL PROSECUTION MANUAL, *supra* note 1, at 52. “Ownership of a mark arises not through any single act of federal registration, but rather through continued use. Registration of a mark with the Patent and Trademark Office, however, offers a number of procedural and substantive legal advantages over reliance on common law rights.” *Id.*

<sup>57</sup> *Id.*

<sup>58</sup> See Coblenz, *supra* note 4, at 277 (citing 18 U.S.C. § 2320(a)). Courts have found that knowledge of whether the mark was registered with the U.S. Patent and Trademark Office is immaterial and not viable as a defense against prosecution. See *United States v. Infurnari*, 647 F. Supp. 57, 58–59 (W.D.N.Y. 1986).

<sup>59</sup> See 15 U.S.C. § 1116(d) (2002); PARADISE, *supra* note 1, at 8.

<sup>60</sup> See Paglia & Rush, *supra* note 25, at 6; see also *supra* text accompanying note 27.

<sup>61</sup> See 18 U.S.C. § 2320(a).

<sup>62</sup> 807 F.2d 427 (5th Cir. 1986).

<sup>63</sup> See *id.* at 428.

<sup>64</sup> See *id.* (stating that he would never have engaged in the act of selling counterfeit watches if he knew he was committing a crime).

Congressional intent behind the statute.<sup>65</sup> Section 2320 requires knowledge of the counterfeit goods and intent to use them, but stipulates no other *mens rea* requirements.<sup>66</sup> Holding that a defendant does not need to know his act is criminal to make him liable,<sup>67</sup> the court acknowledged that the defendant had the requisite *mens rea*, and stated that a defendant's lack of awareness as to the criminal nature of his act "is ordinarily not a recognized defense."<sup>68</sup> Thus, the only two *mens rea* requirements under § 2320 are "that the defendant 'intends' to traffic in goods or services, and that they 'know' that the goods or services are counterfeit."<sup>69</sup>

Building upon the *Baker* holding that § 2320 requires a showing of general intent for the two *mens rea* requirements,<sup>70</sup> courts have held that each element of "knowledge of a counterfeit mark" must be proven for prosecution. In *United States v. Infurnari*,<sup>71</sup> the defendant had been criminally charged with trafficking in counterfeit Rolex and Piaget watches.<sup>72</sup> The U.S. District Court for the Western District of New York determined that in order for the defendant to be liable, he had to have knowledge that the merchandise was counterfeit.<sup>73</sup> The court reasoned that even though there was no explicit requirement of knowledge within the definition of "counterfeit mark," § 2320(a) requires the defendant to "intentionally traffic[]" or "knowingly use[] a counterfeit mark."<sup>74</sup> Thus, the government must prove knowledge of each of the subparts of "counterfeit mark" to hold

<sup>65</sup> See *id.* (quoting *Liparota v. United States*, 471 U.S. 419, 424 (1985)) ("The definition of the elements of a criminal offense is entrusted to the legislature, particularly in the case of federal crimes, which are solely creatures of statute.").

<sup>66</sup> See 18 U.S.C. § 2320(a).

<sup>67</sup> See *Baker*, 807 F.2d at 429 (citing *United States v. Freed*, 401 U.S. 601, 612 (1971)).

<sup>68</sup> *Id.* at 429 n.1 (quoting W. LAFAVE & A. SCOTT, CRIMINAL LAW § 47, at 362–63 (1972)).

<sup>69</sup> *Id.* at 429 (quoting S. REP. NO. 98-526, at 11 (1984), reprinted in 1984 U.S.C.C.A.N. 3627, 3637).

<sup>70</sup> See Goldstone & Toren, *supra* note 23, at 20–21. A requirement of specific intent would require the prosecutor to prove that the defendant knew he was committing an illegal act. See *id.*

<sup>71</sup> 647 F. Supp. 57 (W.D.N.Y. 1986).

<sup>72</sup> *Id.* at 57.

<sup>73</sup> See *id.* at 58.

<sup>74</sup> See *id.* at 58 (quoting 18 U.S.C. § 2320(a) (2002)).

the defendant to be liable.<sup>75</sup> The Court, in analyzing the legislative history behind the statute, determined that since a defendant could face civil penalties under the Lanham Act, “which do[es] not require proof of the defendant’s state of mind,” the harsher criminal penalties could only be applied if the appropriate *mens rea* was found.<sup>76</sup>

The criminal sanctions under § 2320 proved to be a more substantive remedy for trafficking in counterfeit goods than did the civil sanctions under the Lanham Act,<sup>77</sup> “perhaps because of the shock value, the liability of company officers, the stigma of the criminal record and the possibility of a prison sentence.”<sup>78</sup> Yet, more legislation was needed to prevent the increase of the already vast number of counterfeit goods being trafficked.

*B. The Criminalization of Trafficking in Counterfeit Goods under RICO: The Anticounterfeiting Consumer Protection Act of 1996*

In 1996, Congress recognized that the criminal sanctions imposed under § 2320 were not sufficient to combat the wave of organized crime outfits that had begun trafficking counterfeit goods.<sup>79</sup> Thus, Congress passed the Anticounterfeiting Consumer Protection Act, which added “trafficking in goods or services bearing counterfeit marks” as a predicate act under RICO.<sup>80</sup> Congress was concerned that organized crime operations were using profits from counterfeit goods to fund further criminal activities.<sup>81</sup> When passing the Anticounterfeiting Consumer Protection Act, Congress observed that counterfeiting had moved from a purely economic problem to one that posed “significant

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<sup>75</sup> See *id.*

<sup>76</sup> *Id.* (quoting S. REP. NO. 98-526, at 11 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3631).

<sup>77</sup> Cf. SODIPO, *supra* note 14, at 228 (discussing the benefits of criminal sanctions in intellectual property law in general).

<sup>78</sup> *Id.* (footnote omitted).

<sup>79</sup> See Goldstone & Toren, *supra* note 23, at 11.

<sup>80</sup> Trainer Testimony, *supra* note 5.

<sup>81</sup> See Goldstone & Toren, *supra* note 23, at 11; see also *infra* notes 115–17 and accompanying text.

health and safety risk to the American public.”<sup>82</sup> Amending RICO to include trafficking in counterfeit goods was a natural progression for the legislature;<sup>83</sup> prosecutors had already been indicting trademark infringers under RICO, simply because no criminal statute for trademark counterfeiting existed prior to the Trademark Counterfeiting Act of 1984.<sup>84</sup>

RICO, passed in 1970, targeted racketeering by organized crime.<sup>85</sup> Under RICO, rather than prosecute each individual crime affecting legitimate businesses, prosecutors may indict based on a pattern of criminal activity.<sup>86</sup> Where multiple victims suffer from multiple infringements of trademarks, the defendant will be charged for each offense forming the scheme rather than for a single incident.<sup>87</sup> A defendant’s prior convictions for counterfeit violations may also comprise a predicate act under RICO.<sup>88</sup> “A violation of RICO carries a maximum penalty that includes twenty years’ imprisonment and a fine of up to ‘twice the gross profits or other proceeds’ of the racketeering activity.”<sup>89</sup> The Department of Justice’s *Prosecuting Intellectual Property Crimes Manual* instructs prosecutors to determine whether an indictment under RICO might be more substantial than under § 2320 when seeking judgment against a trafficker in counterfeit goods.<sup>90</sup> This

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<sup>82</sup> Coblenz, *supra* note 4, at 299; *see also* discussion *infra* Part II.A.2.

<sup>83</sup> *See generally* United States v. Sam Goody, Inc., 506 F. Supp. 380 (E.D.N.Y. 1981) (holding that defendants could be charged under RICO for trafficking in counterfeit recordings).

<sup>84</sup> *See supra* text accompanying note 29.

<sup>85</sup> *See* Coblenz, *supra* note 4, at 300 (citing RICO, Pub. L. No. 91-452, 84 Stat. 941 (1970)).

<sup>86</sup> *See id.*

<sup>87</sup> *See id.* at 304.

<sup>88</sup> *See* United States v. Erwin, 793 F.2d 656, 669 (5th Cir. 1986) (citing Garrett v. United States, 471 U.S. 773, 795–96 (1985) (holding that a defendant can be sentenced consecutively for a continuing criminal enterprise offense and substantive predicate offenses without violating the Fifth Amendment’s Double Jeopardy Clause)).

<sup>89</sup> FEDERAL PROSECUTION MANUAL, *supra* note 1, at 61 (citing 18 U.S.C. § 1963 (1990)).

<sup>90</sup> *See* IP CRIMES MANUAL, *supra* note 7, § VI.B.2.

[A] RICO charge should be added only if it would serve a specific consideration for a case, [such as (i) providing] the basis for an appropriate sentence in a way that prosecution only on the underlying intellectual property charges would not [or (ii) providing] a reasonable expectation of forfeiture which is proportionate to the underlying criminal conduct.



instruction favors enforcing higher sentences than providing civil remedies to victims. Amending RICO to include counterfeiting allowed prosecutors to use stiffer penalties and demonstrated the federal government's acknowledgement that trademark infringement was becoming a serious burden on the American marketplace.<sup>91</sup> Additionally, charging infringers under RICO enabled federal prosecutors to criminally indict in cases where Lanham Act defenses were available.<sup>92</sup>

*C. Prosecution of Trafficking in Counterfeit Goods under Other Criminal Statutes*

When bringing criminal trademark counterfeiting charges, prosecutors are not limited to indicting under the Trademark Act of 1984 or the Anticounterfeiting Consumer Protection Act of 1996. If more than one person is involved in the trafficking of counterfeit goods, defendants can be charged with conspiracy under 18 U.S.C. § 371.<sup>93</sup> To successfully prosecute a conspiracy charge, the government must prove beyond a reasonable doubt that the defendants knew of the agreement to traffic the goods and voluntarily participated in the furtherance of that agreement.<sup>94</sup> The government does not need to show explicit evidence of the conspiracy; certain actions by the defendant will suffice to prove the crime.<sup>95</sup> Conspiracy is a separate offense, a crime under which a trademark infringer could potentially get a consecutive sentence if convicted.<sup>96</sup>

In *United States v. Yamin*,<sup>97</sup> the defendant was charged with conspiracy to traffic in counterfeit goods.<sup>98</sup> The defendant, Yamin, argued that he merely associated with the other defendants who

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*Id.* (citing U.S. Attorneys' Manual § 9-110.310).

<sup>91</sup> See generally Goldstone & Toren, *supra* note 23, at 6 (noting Congress' realization that trademarks need more protection than the civil sanctions afforded, thus passing the Trademark Act of 1984 and the AntiCounterfeiting Consumer Protection Act of 1996).

<sup>92</sup> See *supra* notes 45–47 and accompanying text.

<sup>93</sup> See Coblenz, *supra* note 4, at 312–13.

<sup>94</sup> See *id.* at 313 (quoting *United States v. Yamin*, 868 F.2d 130, 133 (5th Cir. 1989)).

<sup>95</sup> See *id.* (quoting *Yamin*, 868 F.2d at 133).

<sup>96</sup> See *id.*

<sup>97</sup> 868 F.2d 130.

<sup>98</sup> See *id.* at 133–34.

were found to be selling counterfeit watches.<sup>99</sup> Yamin, however, was partners with another defendant in a business through which the sales of the counterfeit goods were recorded; thus, the government provided evidence to prove beyond a reasonable doubt that Yamin knew of the conspiracy and was a voluntary participant in it.<sup>100</sup> The Fifth Circuit held that the defendant could be found guilty as a principal simply for aiding and abetting the trafficking of counterfeit goods, so long as he intended to contribute to the commission of a criminal act.<sup>101</sup>

In addition to conspiracy charges, a defendant may be indicted under the Money Laundering Statute,<sup>102</sup> which Congress amended in 1994 to include trademark counterfeiting as one of the crimes which constitute “specified unlawful activity.”<sup>103</sup> Permitting proceeds from trafficking in counterfeit goods to form the basis of a charge under the Money Laundering Statute allows for harsher penalties for trademark infringers since the sanctions are much stiffer than under § 2320.<sup>104</sup> Indictment under the Money Laundering Statute also “provides a basis for criminal forfeiture of property involved in the money laundering offense,” an alternative not readily available with cases brought solely on IP infringement.<sup>105</sup>

Prosecutors have other alternatives as well. Counterfeiters can be subject to laws governing interstate commerce if the merchandise is transported from one state to another.<sup>106</sup>

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<sup>99</sup> See *id.* at 133.

<sup>100</sup> See *id.* at 133–34.

<sup>101</sup> See *id.* at 134.

<sup>102</sup> 18 U.S.C. § 1956 (2002).

<sup>103</sup> *Id.* § 1956(c)(7)(D) (including “an offense under . . . section 2320,” relating to trafficking in counterfeit goods and services, under the definition of “specified unlawful activity”). Often, IP infringers violate the Money Laundering Statute by using proceeds from their illegal activities in a financial transaction intended to further more criminal activity, though this is not the only way to violate the statute. See IP CRIMES MANUAL, *supra* note 7, § VI.B.3.

<sup>104</sup> See FEDERAL PROSECUTION MANUAL, *supra* note 1, at 61. A violation of § 1956 carries a maximum sentence of twenty years in prison and a fine of \$500,000 or twice the amount involved in the transaction. See 18 U.S.C. § 1956(a)(1).

<sup>105</sup> IP CRIMES MANUAL, *supra* note 7, § VI.B.3 (citing 18 U.S.C. § 982 (a)(1) (2002)).

<sup>106</sup> See Coblenz, *supra* note 4, at 298 (citing 18 U.S.C. § 2314 (1994)) (indicating that shipping counterfeit merchandise across state lines “may violate laws prohibiting the interstate transportation of stolen property”).

Trafficking in counterfeit goods can also lead to an indictment of fraud.<sup>107</sup> Prosecutors can charge for trafficking in counterfeit goods in numerous ways; even with these added statutory tools, however, trafficking in counterfeit goods continues to be a major blight for American businesses, consumers, and law enforcement agencies.<sup>108</sup>

## II. THE CURRENT ESCALATING PROBLEM OF COUNTERFEIT GOODS

The IACC estimates that “tens of thousands of jobs” are lost from the sale of counterfeit goods, in addition to the millions of dollars the U.S. loses in tax revenues.<sup>109</sup> Legitimate retailers are forced to compromise prices and product distribution.<sup>110</sup> Lost revenues affect American public works and domestic improvements in schools, on the roads, and even in police departments.<sup>111</sup> Additionally, new obstacles which make prosecution of the trademark counterfeiting difficult continually arise.

With advancements in technology, counterfeiters are able to quickly produce realistic products.<sup>112</sup> Additionally, many of the

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<sup>107</sup> See *id.*; cf. Goldstone & Toren, *supra* note 23, at 12–13 (stating Congress’ belief that “counterfeiting is tantamount to fraud”).

<sup>108</sup> Agencies, such as the IACC, continue to lobby for even more stringent criminal statutes. See Trainer Testimony, *supra* note 5. But cf. IP CRIMES MANUAL, *supra* note 7, § VI.B. (“A jury’s inability to reach a verdict on an ancillary charge, such as an accompanying conspiracy count, does not necessarily affect a finding of guilt on the substantive count or counts.”).

<sup>109</sup> INT’L ANTICOUNTERFEITING COALITION, FACTS ON FAKES 3 [hereinafter FACTS ON FAKES], at <http://www.iacc.org/factsupdated.pdf> (last visited Mar. 25, 2005). The U.S. Chamber of Commerce estimates that counterfeiting results in the loss of 750,000 domestic jobs. See Press Release, U.S. Chamber of Commerce, Chamber Commends DOJ Counterfeiting Crackdown: International ‘Operation Fastlink’ Aimed at Online IP Theft (Apr. 23, 2004), <http://www.uschamber.com/press/releases/2004/april/04-53.htm> (last visited Mar. 25, 2005); see also *Counterfeiting and Theft of Tangible Intellectual Property: Hearing Before the S. Comm. on the Judiciary*, 108th Congress (2004) [hereinafter Leahy Statement] (statement of Senator Patrick Leahy), at [http://judiciary.senate.gov/member\\_statement.cfm?id=1119&wit\\_id=103](http://judiciary.senate.gov/member_statement.cfm?id=1119&wit_id=103) (Mar. 23, 2004).

<sup>110</sup> See, e.g., FACTS ON FAKES, *supra* note 109, at 3.

<sup>111</sup> See *id.*

<sup>112</sup> See Tina Cassidy, *Bagging the Knockoffs: There’s Nothing Like the Real Thing*, BOSTON GLOBE, Dec. 26, 2002, at D1 (citing Nancy Kratzer, Assistant Director for Fraud

counterfeiters have been in operation for some time, so their distribution chains have strengthened.<sup>113</sup> Government officials realize that they only seize a small margin of the counterfeit products coming into, or being made within, the country.<sup>114</sup> They are also aware that many distribution chains have been linked to notorious crime operations, such as the Born to Kill gang<sup>115</sup> and terrorist organizations.<sup>116</sup> Some sales from counterfeit products financed the 1993 World Trade Center bombing; investigations are still ongoing to determine whether they played a role in the September 11, 2001, attacks.<sup>117</sup>

Aside from the fact that profits from counterfeit merchandise fund other crimes, trafficking in counterfeit goods subverts the “transaction structure” of the American economy.<sup>118</sup> Trademarks encourage business transactions by allowing a purchaser to know the quality and reliability of goods from a certain source.<sup>119</sup> “[B]y playing off the reputation of another, the counterfeiter is trying to

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Investigations, U.S. Customs Office, and Director, National Intellectual Property Rights Coordination Center); *see also* FEDERAL PROSECUTION MANUAL, *supra* note 1, at i. “The theft of brands, even down to the similar packaging and company catalogs, has skyrocketed during recent years thanks to the ease of downloading information from the Internet.” Neil King Jr., *U.S. Prepares to Crack Down on Intellectual-Property Piracy*, WALL ST. J., Oct. 4, 2004, at A2. “Most fakes . . . are getting so good that even company execs say it takes a forensic scientist to distinguish them from the real McCoy. Armed with digital technology, counterfeiters can churn out perfect packaging—a key to duping unwitting distributors and retail customers.” Frederik Balfour et al., *Fakes: The Global Counterfeit Business Is Out of Control, Targeting Everything from Computer Chips to Life-Saving Medicines*, BUS. WK., Feb. 7, 2005, at 54.

<sup>113</sup> *See* Cassidy, *supra* note 112.

<sup>114</sup> *See id.* (citing Nancy Kratzer).

<sup>115</sup> Elaine Silvestrini, *Authorities Try to Get a Handle on Counterfeit Designer Purses*, TAMPA TRIB., Jan. 20, 2004, at 1 (Metro). “Investigators have tracked counterfeit purse distribution rings to the Born to Kill gang in Los Angeles and gangs in New York and China . . . . Proceeds help pay off local officials and support sweatshop labor.” *Id.* (quoting Steven J. Trent, special agent in charge of U.S. Immigration and Customs Enforcement’s Tampa office).

<sup>116</sup> *See generally* Trainer Testimony, *supra* note 5; *see also* Leahy Statement, *supra* note 109 (noting that trafficking in counterfeit goods is a choice method of operation for terrorist or organized crime outfits because of the large amount of money which can be made and eventually laundered to finance other criminal acts).

<sup>117</sup> *See* Betsy Streisand, *Jingle All the Way?*, U.S. NEWS & WORLD REP., Dec. 16, 2002, at 36.

<sup>118</sup> Goldstone & Toren, *supra* note 23, at 19.

<sup>119</sup> *See id.*; *see also* FEDERAL PROSECUTION MANUAL, *supra* note 1, at 2.

obtain an unfair advantage by avoiding the usual rules of trademarks and service marks,”<sup>120</sup> while providing the consumer with an inferior product.<sup>121</sup>

*A. Types of Merchandise Being Counterfeited*

The reputation behind a brand name is invaluable to companies<sup>122</sup> and consumers who do not have the time to “investigate the merits of every product they buy or service they use.”<sup>123</sup> Customers are defrauded when they unwittingly purchase counterfeit merchandise.<sup>124</sup> Retailers who are unaware of the counterfeit nature of their products lose out too, as they often have to refund money to unsatisfied customers.<sup>125</sup> This cycle continues as the number of counterfeit goods entering the marketplace increases each year. By the middle of 2003, the Department of Homeland Security reported 3117 seizures of counterfeit goods, a forty-two percent jump in seizures from the previous year.<sup>126</sup> By the middle of 2004, 3693 seizures of counterfeit goods were reported,<sup>127</sup> and by end of September 2004, “counterfeit goods valued at \$138 million were seized at the country’s borders.”<sup>128</sup>

<sup>120</sup> Goldstone & Toren, *supra* note 23, at 19.

<sup>121</sup> See, e.g., FEDERAL PROSECUTION MANUAL, *supra* note 1, at i; see also Goldstone & Toren, *supra* note 23, at 4.

<sup>122</sup> See Jennifer Beauprez, *Accessories to Crime Parties, Vendors Part of Wide Trade in Faux Designer Goods*, DENVER POST, Nov. 30, 2003, at K01.

<sup>123</sup> Goldstone & Toren, *supra* note 23, at 4. “To sell counterfeit products offends both law and ethics, deceiving the buyers of the fakes and exploiting the creators of the originals.” Randy Cohen, *Take the Oath*, N.Y. TIMES, Feb. 6, 2005, § 6 (Magazine), at 22.

<sup>124</sup> See *id.* (noting that often consumers purchase what they believe to be high-quality products, but instead have wasted their money on low-quality fakes).

<sup>125</sup> See *id.*

<sup>126</sup> Maier, *supra* note 3. Among the goods seized were “cigarettes, books, apparel, handbags, toys and electronic games.” *Id.*

<sup>127</sup> DEP’T OF HOMELAND SEC., MID-YEAR FY 2004 CBP AND ICE IPR SEIZURES, [http://www.cbp.gov/linkhandler/cgov/import/commercial\\_enforcement/ipr/seizure/fy04\\_midyear\\_stats.ctt/fy04\\_ipr\\_midyear.xls](http://www.cbp.gov/linkhandler/cgov/import/commercial_enforcement/ipr/seizure/fy04_midyear_stats.ctt/fy04_ipr_midyear.xls) (last updated May 7, 2004).

<sup>128</sup> Henry Gilgoff, *Countering Counterfeits from Drugs to Shoes, Marketing Fraud Costs Taxpayers Millions, and Government is Striking Back*, NEWSDAY, Dec. 5, 2004, at E06 (citing Daniel Baldwin, Acting Assistant Commissioner, U.S. Customs and Border Protection, Dep’t of Homeland Sec.).

Counterfeit products range in value from very expensive luxury items to batteries and cigarettes; the commonality between targeted goods is the fact that the companies manufacturing them “have developed a demand for proven reliable products.”<sup>129</sup> Counterfeit products include pesticides,<sup>130</sup> hair products,<sup>131</sup> pharmaceuticals,<sup>132</sup> luxury items,<sup>133</sup> brake parts,<sup>134</sup> heart pumps,<sup>135</sup> birth control pills,<sup>136</sup> printer cartridges,<sup>137</sup> and infant formula,<sup>138</sup> as well as many others. The IACC views the fact that counterfeiters shifted from luxury products to pharmaceuticals, brake pads, and other items as “a frontal attack on consumer safety and economic stability.”<sup>139</sup>

<sup>129</sup> Trainer Testimony, *supra* note 5. “Counterfeiting packs all the punch of skilled labor, smart distribution, and product savvy without getting bogged down in costly details such as research and brand building.” Balfour et al., *supra* note 112.

<sup>130</sup> See, e.g., Press Release, U.S. Dep’t of Justice, Glencoe Alabama Man Pleads Guilty to Selling Counterfeit and Adulterated Pesticides (Jan. 5, 2004) [hereinafter DOJ Press Release, Counterfeit and Adulterated Pesticides], [http://www.usdoj.gov/opa/pr/2004-January/04\\_enrd\\_002.htm](http://www.usdoj.gov/opa/pr/2004-January/04_enrd_002.htm) (last visited Mar. 25, 2005).

William Murphy pled guilty to all twenty-eight counts of counterfeiting and pesticide misbranding charges pending against him for having sold mislabeled and adulterated pesticides to municipalities in Alabama and Georgia that they used for mosquito and West Nile Virus control. . . . The indictment charged Murphy with eleven counts of having violated federal trademark protection laws by trafficking in counterfeit goods through the sale of what he claimed to be registered brand name pesticides when he knew they were not.

*Id.*

<sup>131</sup> See, e.g., *United States v. Sung*, 51 F.3d 92, 93 (7th Cir. 1995).

<sup>132</sup> See, e.g., *Counterfeit Bulk Drugs: Hearing Before the Subcomm. on Oversight and Investigations of the House Comm. on Commerce*, 106th Cong. (2000) [hereinafter *Counterfeit Bulk Drugs Hearing*], at [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=106\\_house\\_hearings&docid=f:65846.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=106_house_hearings&docid=f:65846.pdf) (Oct. 3, 2000).

<sup>133</sup> See, e.g., Cassidy, *supra* note 112.

<sup>134</sup> See, e.g., Goldstone & Toren, *supra* note 23, at 14.

<sup>135</sup> See, e.g., *id.*

<sup>136</sup> See, e.g., *Examining the Implications of Drug Importation: Hearing Before the S. Comm. on the Judiciary*, 108th Cong. (2000) [hereinafter Hubbard Statement] (statement of William Hubbard, Associate Commissioner for Policy and Planning, U.S. Food and Drug Administration), at [http://judiciary.senate.gov/testimony.cfm?id=1264&wit\\_id=3700](http://judiciary.senate.gov/testimony.cfm?id=1264&wit_id=3700) (July 14, 2004); Goldstone & Toren, *supra* note 23, at 14.

<sup>137</sup> See, e.g., Ronald Smothers, *Counterfeit Printer Cartridges Seized at a Warehouse in New Jersey*, N.Y. TIMES, Mar. 30, 2004, at B5.

<sup>138</sup> See, e.g., Goldstone & Toren, *supra* note 23, at 14.

<sup>139</sup> *Counterfeiting and Theft of Tangible Intellectual Property: Challenges and Solutions: Hearing Before S. Comm. on the Judiciary*, 108th Cong. (2004) (written testimony of Timothy P. Trainer), at [http://judiciary.senate.gov/testimony.cfm?id=1119&wit\\_id=3196](http://judiciary.senate.gov/testimony.cfm?id=1119&wit_id=3196) (Mar. 23, 2004).

### 1. Luxury Items

The highest profile counterfeit investigations and prosecutions concern luxury goods.<sup>140</sup> Sold by street vendors and in mall kiosks, the merchandise bears names like Coach, Gucci, and Kate Spade.<sup>141</sup> Executives at Kate Spade believe that the sales ratio of real bags to knockoffs is one-to-one.<sup>142</sup> Counterfeit bags, the most widely infringed product, are so easily attained that the public perceives them to be legal.<sup>143</sup> Furthermore, the constant demand for these bags makes them a targeted item by counterfeiters.<sup>144</sup>

Ironically, though counterfeiters sell these products openly, they still go to great lengths to disguise the products from law enforcers.<sup>145</sup> Layers are often placed over bags, thus hiding the actual product until the infringer peels the top layer off.<sup>146</sup> Some counterfeiters place “watchers” on the street corners with instructions to contact them via walkie-talkie if undercover experts for companies or police officers are spotted.<sup>147</sup> These drills have become so routine that sellers can close up shop in a matter of seconds.<sup>148</sup> Counterfeit luxury items have become a multi-million dollar business for traffickers because of the commonplace

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<sup>140</sup> Jim Mele, *Counterfeit Parts: Buyer Beware*, FLEET OWNER, Mar. 1, 2004, at 3.

<sup>141</sup> See, e.g., Michael Wilson, *Two Chinatown Stores Raided in Counterfeit Goods Sweep*, N.Y. TIMES, Dec. 3, 2003, at B2; Cassidy, *supra* note 112; cf. Joseph Sjostrom, *Man Charged in Sale of Junk Jewelry to Retailer*, CHI. TRIB., Oct. 2, 2004, at C16 (reporting the arrest of a man who was accused of repackaging junk costume jewelry as designer-made items and peddling them to retailer Tuesday Morning, which unwittingly sold thousands of these counterfeit items to the public).

<sup>142</sup> Cassidy, *supra* note 112.

<sup>143</sup> See, e.g., *id.* “Luxury brands are losing billions of dollars every year in this country to the producers of fakes sold at seemingly legitimate dealers at mall kiosks, on city sidewalks, or over the Internet.” *Id.*

<sup>144</sup> See Debra D. Peterson, Note, *Criminal Counterfeiting and Component Parts: Closing the Perceived “Label Loophole,”* 30 AM. INTELL. PROP. L. ASS’N Q.J. 457, 470 (2002). “Counterfeiters logically choose popular items to copy, so there is a built-in demand for their less expensive and superficially similar products.” *Id.*

<sup>145</sup> See, e.g., Cassidy, *supra* note 112 (citing Nancy Kratzer).

<sup>146</sup> See *id.* (citing Nancy Kratzer).

<sup>147</sup> See Wilson, *supra* note 141; see also Balfour et al., *supra* note 112.

<sup>148</sup> See generally *id.*

acceptance of counterfeit purses in our society and the sophisticated strategies for evading state or federal agents.<sup>149</sup>

## 2. Pharmaceuticals

Counterfeit pharmaceuticals, as noted by industry insiders, have dramatically increased in number since 2002, and are now a major concern of the U.S. government.<sup>150</sup> According to the Federal Food, Drug, and Cosmetic Act ("FDCA"), counterfeit drugs are those bearing the "trademark, trade name, or other identifying mark, imprint, or device, or any likeness thereof" of another drug manufacturer that did not manufacture the drugs.<sup>151</sup> In June 2003, the House of Representatives called a hearing to discuss the importation and manufacture of counterfeit drugs entering the U.S. market.<sup>152</sup> The Senate held a similar hearing in October 2003 to explore federal and state cooperation in targeting counterfeit drugs.<sup>153</sup> The impetus for these hearings appears to be the immediate and dangerous impact on the public welfare caused by counterfeit drugs.<sup>154</sup>

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<sup>149</sup> See Cassidy, *supra* note 112. "We seize, in the retail value equivalent of a real Coach bag, about \$50 million worth of the product per year." *Id.* (quoting Carole Sadler, Senior Vice President and General Counsel, Coach).

<sup>150</sup> See, e.g., *A System Overwhelmed: The Avalanche of Imported, Counterfeit, and Unapproved Drugs into the U.S.: Hearing Before the Subcomm. on Oversight and Investigations of the House Comm. on Energy and Commerce*, 108th Cong. 87–88 (2003) [hereinafter *A System Overwhelmed Hearing*] (prepared statement of Dr. Cesar Arias, Drug Inspector Supervisor, Fla. Dep't of Health, Bureau of Statewide Pharm. Servs.) (attesting to the increase in counterfeit pharmaceuticals in the Miami area), at [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108\\_house\\_hearings&docid=f:88425.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_house_hearings&docid=f:88425.pdf) (June 24, 2003); Hubbard Statement, *supra* note 136. "FDA has seen its number of counterfeit drug investigations increase four-fold since the late 1990s." *Id.*

<sup>151</sup> 21 U.S.C. § 321(g)(2) (2004). "Note that a key element in this definition is the idea of fraud or deceit." Hubbard Statement, *supra* note 136.

<sup>152</sup> See generally *A System Overwhelmed Hearing*, *supra* note 150.

<sup>153</sup> *Federal and State Role in Pharmacy Compounding and Reconstitution: Exploring the Right Mix to Protect Patients: Hearing Before the S. Comm. on Health, Educ., Labor, and Pensions*, 108th Cong. (2003), at <http://www.access.gpo.gov/congress/senate/senate15sh108.html> (last visited Mar. 25, 2005).

<sup>154</sup> See Hubbard Statement, *supra* note 136. "Each day . . . thousands of individual packages containing prescription drugs are imported illegally into the U.S., simply because the sheer volume has grown to exceed the capability of the FDA field personnel to properly process." *Id.*



While there is no direct life-threatening repercussion to purchasing a counterfeit purse, counterfeit drugs often have a lesser dose or no dose of the necessary active ingredient, thus putting the consumer's life at risk.<sup>155</sup> Since the prices for pharmaceuticals in the United States are so high, trafficking counterfeit prescription drugs into the American market is particularly attractive to infringers.<sup>156</sup> "Up to fifteen percent of all drugs sold worldwide – worth over \$35 billion – are fakes."<sup>157</sup> The problem continues because of fraud and accessibility; street brokers, who manufacture or purchase counterfeit drugs, will sell the ersatz medicines back into the legal drug distribution chain.<sup>158</sup> Dr. Cesar Arias, who supervises drug investigation for the Florida Department of Health, recently testified before the House Committee on Energy and Commerce that he "was involved in one investigation involving drugs purchased off the streets where a wholesaler in Ft. Lauderdale sold over \$1 million in Neupogen for treating HIV to one of the largest wholesalers in the nation in a six month period."<sup>159</sup> Additionally, many Internet sites, like those established for the sale of luxury goods, facilitate easy distribution of counterfeit pharmaceuticals.<sup>160</sup> To unsuspecting purchasers,

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<sup>155</sup> See *Counterfeit Bulk Drugs Hearing*, *supra* note 132, at 311 (prepared statement of Patricia L. Maher, Deputy Assistant Attorney General, Civil Division, U.S. Dep't of Justice). In addition to drugs being ineffective, the ingredients which the counterfeiters do include could be fatally and lethally toxic to the consumer. See *id.*

<sup>156</sup> Marcia Angell, M.D., *Importing Prescription Drugs from Canada; Why is the Pharmaceutical Industry so Threatened by Drug Importation?*, CHI. TRIB., Aug. 20, 2004, at C25.

<sup>157</sup> *Drug Companies and Governments Must Act on Fake Drug Problem*, MED. LETTER ON THE CDC & FDA, Apr. 10, 2005, at 150, 2005 WLNR 5058488 (Westlaw database citation).

<sup>158</sup> See *A System Overwhelmed Hearing*, *supra* note 150, at 87 (prepared statement of Dr. Cesar Arias, Drug Inspector Supervisor, Fla. Dep't of Health, Bureau of Statewide Pharm. Servs.).

<sup>159</sup> *Id.* (noting that the drug, which requires storage in cold temperatures, would be left in heated cars for extended periods of time).

<sup>160</sup> See *Counterfeit Bulk Drugs Hearing*, *supra* note, 132 at 311 (statement of Patricia L. Maher, Deputy Assistant Attorney General, Civil Division, U.S. Dep't of Justice); see also Hubbard Statement, *supra* note 136 ("[I]nadequately regulated foreign Internet sites have also become portals for unsafe and illegal drugs . . . [the] FDA recently worked with domestic and international authorities to shut down a website that was advertising 'FDA-approved' . . . birth control pills and other drugs, but was actually responsible for importing ineffective, counterfeit drugs.").

however, the effect can be fatal. Thus, counterfeit goods, aside from being a blight on businesses, have begun to emerge as a major threat to public health and safety.

### 3. Car Parts

Car and truck parts have become one of the fastest growing markets for counterfeit products.<sup>161</sup> The Federal Trade Commission ("FTC") approximates the losses to American auto-part businesses at \$3 billion.<sup>162</sup> While infringers originally were counterfeiting car accessories, they have since moved to brake pads and suspension components.<sup>163</sup> The IACC recently stated that "[i]t's now possible to assemble a complete car or motorcycle from illegally copied and produced parts."<sup>164</sup> In addition to products with counterfeit marks, infringers are now engineering car parts to look like the originals, but without the brand-name and reliability.<sup>165</sup> Similar to counterfeit drugs, counterfeit automobile parts put the public welfare at risk.

### 4. Other Counterfeited Goods

Counterfeiting touches every sector of the U.S. economy. In the late 1990s, the American computer software industry estimated that "sales of counterfeit software exceed 40% of the industry's total revenues."<sup>166</sup> In February 2003, five men faced criminal charges for importing 35 million ersatz Marlboro cigarettes into New York from China.<sup>167</sup> The retail value of the counterfeit cigarettes was \$10 million; federal prosecutors also suspect that

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<sup>161</sup> See Mele, *supra* note 140.

<sup>162</sup> See *id.* In 2004, the FTC estimates that \$12 billion is lost globally. *Id.*

<sup>163</sup> See *id.*

<sup>164</sup> *Id.*

<sup>165</sup> *Id.*

<sup>166</sup> Coblenz, *supra* note 4, at 240 (quoting H.R. REP. NO. 104-556 (1996), reprinted in 1996 U.S.C.C.A.N. 1074, 1075).

<sup>167</sup> See William Glaberson, *6 Are Charged with Selling Millions of Counterfeit Marlboros*, N.Y. TIMES, Feb. 21, 2003, at B3. The counterfeit cigarettes were "hidden in shipping containers behind boxes of plastic kitchen pots." *Id.*; cf. Beauprez, *supra* note 122 (citing Stuart Drobny, founder of Stumar Investigations, a firm that works for luxury manufacturers on counterfeit cases) ("Most fake handbags are made in Asian and Mexican sweatshops and often smuggled into the United States inside furniture shipments.").

“[t]he scheme allowed the suspects to evade about \$1 million in taxes.”<sup>168</sup> In January 2004, an Alabama man pled guilty to selling counterfeit pesticides that were supposed to control mosquitoes and the West Nile Virus.<sup>169</sup> This criminal activity, constituting fraud upon the public,<sup>170</sup> is particularly noteworthy because of the speed and aggressiveness with which the federal government handled the situation. When the violation concerns public health or the environment, the Department of Justice is quick to enforce criminal penalties.<sup>171</sup> With all counterfeit goods, however, federal agents and prosecutors continue to have problems stopping trademark infringement.

*B. The Formation of Government Agencies to Combat the Problem*

As counterfeit goods increasingly invaded the U.S. market, the federal government realized specialists were needed in the area of trademark counterfeiting investigations. Several different government agencies developed departments to focus on trademark infringement. In 1995, the Department of Justice responded by forming the Computer Crime and Intellectual Property Section (“CCIPS”), a subsection of the criminal division.<sup>172</sup> CCIPS coordinates the criminal enforcement of intellectual property infringements.<sup>173</sup> Along with CCIPS, the Department of Justice instituted “Operation Counter Copy,” a “nationwide ‘effort to crack down on trademark and copyright fraud.’”<sup>174</sup> Yet, of the thirty-five indictments in April 1997, only eight defendants pled guilty to trademarks counterfeiting.<sup>175</sup>

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<sup>168</sup> John Marzulli, *Fake Marlboro Men Busted in Smuggling Ring*, N.Y. DAILY NEWS, Feb. 21, 2003, at 37.

<sup>169</sup> See DOJ Press Release, *Counterfeit and Adulterated Pesticides*, *supra* note 130.

<sup>170</sup> *Id.*

<sup>171</sup> See, e.g., *id.*

<sup>172</sup> Coblenz, *supra* note 4, at 242; see also *International Copyright Piracy Hearing*, *supra* note 2, at 8 (prepared statement of John G. Malcolm, Deputy Assistant Attorney General, Criminal Div., U.S. Dep’t of Justice).

<sup>173</sup> Coblenz, *supra* note 4, at 242.

<sup>174</sup> *Id.*

<sup>175</sup> *Id.*

In 1999, the American Inventors Protection Act instituted a requirement that the U.S. Patent and Trademark Office report information on international and national intellectual property violations and preventive measures to the Secretary of Commerce and all other Federal agencies.<sup>176</sup> That same year, the U.S. Patent and Trademark Office, in collaboration with the Department of Justice's Criminal Division, formed the National Intellectual Property Law Enforcement Coordination Council ("NIPLECC") to focus on international and domestic enforcement of intellectual property rights.<sup>177</sup> "NIPLECC's coordination activities help ensure that government enforcement efforts are consensus-based and non-duplicative, and therefore are vital to ensuring fairness and honesty in the use and development of intellectual property."<sup>178</sup>

In 2000, the U.S. Immigration and Customs Enforcement ("ICE"), Customs and Border Protection ("CBP"), and the Federal Bureau of Investigations ("FBI") joined together to form the National Intellectual Property Rights Coordination Center ("IPR Center").<sup>179</sup> The IPR Center coordinates the enforcement of domestic and international intellectual property laws, connects law enforcement with private industry, and acts as an intellectual property crime information center for other government agencies.<sup>180</sup> In September 2000, the United States met with eight other nations to discuss increased cooperative measures at the

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<sup>176</sup> See *Pirates of the 21<sup>st</sup> Century: The Curse of the Black Market: Hearing Before the Oversight of Gov't Mgmt., the Fed. Workforce and the D.C. Subcomm. of the S. Comm. on Gov't Affairs*, 108th Cong. 46 (2004) [hereinafter *Pirates of the 21<sup>st</sup> Century Hearing*] (statement of Jon W. Dudas, Acting Under Secretary of Commerce for Intellectual Property and Acting Director of the U.S. Patent and Trademark Office), at <http://a257.g.akamaitech.net/7/257/2422/07sep20041200/www.access.gpo.gov/congress/senate/pdf/108hrg/94482.pdf> (last visited Apr. 3, 2005).

<sup>177</sup> See *id.*

<sup>178</sup> *Id.*

<sup>179</sup> See *id.* at 58 (testimony of Francis Gary White, Unit Chief, Commercial Fraud Division, Immigration and Customs Enforcement, Dep't of Homeland Security).

<sup>180</sup> See U.S. Immigration and Customs Enforcement, *Fact Sheet, National Intellectual Property Rights Coordination Center (IPR Center)* (Oct. 4, 2004), [http://www.ice.gov-graphics/news/factsheets/IPR\\_FS100404.htm](http://www.ice.gov-graphics/news/factsheets/IPR_FS100404.htm).

countries' borders, and with law enforcement officials to thwart trafficking of counterfeit goods.<sup>181</sup>

In June 2003, four representatives from the House sought to combat intellectual property crimes by forming the Congressional Caucus on Intellectual Property Promotion and Privacy Prevention.<sup>182</sup> The Caucus' purpose is to keep Congress abreast of recent intellectual property issues and facilitate future legislation.<sup>183</sup>

In March 2004, Attorney General John Ashcroft formed an Intellectual Property Task Force "to examine all aspects of how the Department of Justice handles intellectual property issues and to develop recommendations for future efforts," and to provide a comprehensive report by the year's end.<sup>184</sup> The members of the task force include the Deputy Chief of Staff and Counselor to Attorney General Ashcroft, Assistant Attorneys General from six different bureaus, the Principal Deputy Solicitor General, the Deputy Assistant Attorney General in the Antitrust Division, the General Counsel for the FBI, and U.S. Attorneys for the Central and Northern Districts of California, with consultation from the Assistant Secretary of Homeland Security for Immigration and Customs Enforcement.<sup>185</sup> David Israelite, the Chairman of the Task Force stated that "[t]he Attorney General is committed to vigorous enforcement of the law and the protection of intellectual property rights, and those priorities will guide the task force as it

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<sup>181</sup> See U.S. Dep't of Justice, *G8 Law Enforcement Experts Agree to Examine Transborder IP Crime*, <http://www.usdoj.gov/criminal/cybercrime/G8experts.htm> (last updated Dec. 1, 2000).

<sup>182</sup> See Press Release, Representative Tom Feeney, Congressional Caucus on Intellectual Property Promotion and Privacy Prevention to Be Launched in Congress (May 20, 2003), [http://www.house.gov/apps/list/press/fl24\\_feeney/pr\\_030520\\_privacy.html](http://www.house.gov/apps/list/press/fl24_feeney/pr_030520_privacy.html) (last visited Mar. 25, 2005). The Caucus was introduced by Representatives Robert Wexler (D-FL), Tom Feeney (R-FL), Adam Smith (D-WA), and Mary Bono (R-CA). *Id.*

<sup>183</sup> See *id.*

<sup>184</sup> Press Release, U.S. Dep't of Justice, Intellectual Property Task Force Chairman David Israelite Announces Task Force Membership, Creation of Working Groups (Apr. 21, 2004), [http://www.cybercrime.gov/task\\_force.htm](http://www.cybercrime.gov/task_force.htm) (last updated Apr. 29, 2004). The task force is comprised of five working groups: 1. Criminal law, 2. Civil law, 3. International treaties and obligations, 4. Legislative and regulatory proposals, and 5. Public awareness. *Id.*

<sup>185</sup> *Id.*

seeks to strengthen and improve the Justice Department's efforts in the intellectual property arena."<sup>186</sup> This task force has the potential to curtail the number of counterfeit goods coming into the country, but it will only be effective if it can efficiently work with other agencies, branches of the government, and industry members.

*C. International Counterfeiting Affecting the American Market*

If counterfeit goods sold in the U.S. were solely manufactured domestically, then enforcement agencies might have an easier time curbing the number of false products entering the marketplace. A majority of the counterfeit products being trafficked in America, however, originate from international sources, particularly Asia.<sup>187</sup> Counterfeit goods come through American ports from Asian countries with weak patent and trademark laws; thus, when copies of merchandise come into the country under different names, prosecutors have difficulty proving infringement.<sup>188</sup> Another problem is that the Trademark Act of 1984 makes no distinction for criminals at different points of the distribution chain.<sup>189</sup> Manufacturers, sellers, and distributors are all subject to the same sanctions.<sup>190</sup> These sanctions are rarely enforced as strongly as they could be, and thus, international infringers throughout the distribution chain are undeterred.

As a result of the December 1993 Uruguay Round negotiations of the General Agreement of Trade and Tariffs ("GATT"), the World Trade Organization's ("WTO") Trade-Related Aspects of Intellectual Property Rights Agreement ("TRIPs") was created.<sup>191</sup> TRIPs subsequently went into force in 1995.<sup>192</sup>

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<sup>186</sup> *Id.*

<sup>187</sup> See generally Cassidy, *supra* note 112.

<sup>188</sup> See Mele, *supra* note 140.

<sup>189</sup> See 18 U.S.C. § 2320 (2002).

<sup>190</sup> See *id.*

<sup>191</sup> See *Pirates of the 21<sup>st</sup> Century Hearing*, *supra* note 176, at 47 (statement of Jon W. Dudas, Acting Under Secretary of Commerce for Intellectual Property and Acting Director of the U.S. Patent and Trademark Office); see also Bureau of Economic and Business Affairs of the U.S. Dep't of State, Intellectual Property Rights (IPR) Training Program Database, *Information: FAQ (Frequently Asked Questions)* [hereinafter IPR Questions], <http://www.training.ipr.gov/index.cfm?fuseaction=content.faq> (last visited Mar. 25, 2005).

<sup>192</sup> IPR Questions, *supra* note 191.

[TRIPs] sets minimum standards of protection for the various forms of intellectual property and requires WTO members to provide for “effective enforcement” of intellectual property rights. TRIPs also includes detailed provisions on civil, criminal and border enforcement measures designed to protect intellectual property rights.<sup>193</sup>

A result of TRIPs was that members of GATT decided to “rewrite their national laws to conform to internationally agreed norms for protecting” intellectual property.<sup>194</sup> Some developing countries, however, still have until 2006 to meet the terms of the agreement,<sup>195</sup> allowing counterfeiting to still flourish. To counteract this problem, Congress amended the Foreign Operations Bill for 2004, which allowed for assistance to developing countries by providing the State Department with \$2.5 million in funds to establish programs that protect intellectual property rights in those nations.<sup>196</sup>

Of all the foreign nations where counterfeit products are manufactured, “China is the world’s main source of counterfeit goods,”<sup>197</sup> and many other countries, including the United States,

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<sup>193</sup> See *Pirates of the 21<sup>st</sup> Century Hearing*, *supra* note 176, at 47 (statement of Jon W. Dudas, Acting Under Secretary of Commerce for Intellectual Property and Acting Director of the U.S. Patent and Trademark Office). TRIPs included previously unprotected—in certain countries—areas such as pharmaceuticals and computer software. See IPR Questions, *supra* note 191.

<sup>194</sup> IPR Questions, *supra* note 191.

<sup>195</sup> See *Pirates of the 21<sup>st</sup> Century Hearing*, *supra* note 176, at 47 (statement of Jon W. Dudas, Acting Under Secretary of Commerce for Intellectual Property and Acting Director of the U.S. Patent and Trademark Office). “The general timetable for implementing the TRIPs agreement, which entered into force on July 1, 1995, is one year for industrialized countries; five years for developing countries and countries shifting from centrally planned economies; and 10 years for least-developed countries.” IPR Questions, *supra* note 191.

<sup>196</sup> See Leahy Statement, *supra* note 109. “These programs will strengthen local intellectual property laws, educate and train law enforcement officers, and enhance the ability of customs officials to combat trafficking in pirated goods.” *Id.*

<sup>197</sup> Sparshott, *supra* note 12; see, e.g., Press Release, U.S. Immigration and Customs Enforcement, U.S. Charges 17 with Trafficking in Counterfeit Goods, Money Laundering, Attempted Bribery of a Public Official: ICE Undercover Investigation Stops Import of \$400M in Fakes (June 4, 2004) (announcing that the defendants “smuggled in at least 30 10-foot containers loaded with counterfeit merchandise from China worth millions of dollars and subsequently wired hundreds of thousands of dollars in criminal proceeds derived from the scheme back to China”),

wish to curtail the number of Chinese counterfeit products infiltrating their markets. Private organizations as well as policy makers and enforcement agents from around the world continue to believe that working together is the only way to eradicate trafficking in counterfeit goods.<sup>198</sup> On May 25–26, 2004, the First Global Congress on Combating Counterfeiting was held in Brussels.<sup>199</sup> This congress, while probably knowledgeable on the current situation of counterfeit goods and possible strategies to remedy the problem, is merely an advisory committee. The U.S. government faces a huge challenge in combating domestic trademark infringement without the compound problem of false merchandise from other countries entering the American market;<sup>200</sup> as a result, the government needs to focus on a proactive approach to trademark counterfeiting, such as strengthening the enforcement of U.S. trademark laws, especially at our borders.

#### *D. Counterfeiting Not Taken Seriously*

Despite these efforts by the U.S. government, counterfeiting remains an issue because consumers, and basically the general

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/newsreleases/articles/060404newyork.htm (last visited Mar. 25, 2005); *Counterfeiting and Theft of Tangible Intellectual Property: Changes and Solutions: Hearing Before the U.S. S. Comm. on the Judiciary*, 108th Cong. (2004) [hereinafter Willard Statement] (statement of Richard K. Willard, Senior Vice President and General Counsel of the Gillette Company) (“Recently in China, over the span of one week, [Gillette] seized over 1.5 million fake Gillette products that were destined for France, Russia, South America, the Middle East, and English-speaking nations.”), at [http://judiciary.senate.gov/testimony.cfm?id=1119&wit\\_id=3197](http://judiciary.senate.gov/testimony.cfm?id=1119&wit_id=3197) (Mar. 23, 2004).

<sup>198</sup> See generally The First Global Congress on Combating Counterfeiting, *Combating Global Counterfeiting* [hereinafter *Combating Global Counterfeiting*] (announcing that public and private sector leaders gathered at the congress to discuss effective cooperative anti-counterfeiting measures), at <http://www.anti-counterfeitcongress.org/wco2004/website.asp?page=home> (last updated June 30, 2004).

<sup>199</sup> *Id.* The Congress was supported by the World Customs Organization, Interpol, the Global Business Leaders Alliance Against Counterfeiting, the International Trademark Association, the International Security Management Association, and member companies of the World Customs Organization’s IPR Strategic Group. See The First Global Congress on Combating Counterfeiting, *Supporting Organizations*, at <http://www.anti-counterfeitcongress.org/wco2004/website.asp?page=supporting> (last updated May 12, 2004).

<sup>200</sup> Cf. *Combating Global Counterfeiting*, *supra* note 198 (“There was an urgent need for such a global congress.”).



public at large, do not view the situation as serious.<sup>201</sup> This is true even though the problem of counterfeit bags being sold throughout the country have received “a lot of press and police attention recently.”<sup>202</sup> High-end retail companies are feeling the economic effects, but “the potential threat to public safety and welfare is small, making the entire issue of counterfeiting name-brand goods seem more like a consumer game than a real crime.”<sup>203</sup> Even though criminal penalties befall distributors of counterfeit goods, many people, especially housewives, are still doing it.<sup>204</sup> Purse parties, where counterfeit luxury items are sold in homes, are common in suburban America.<sup>205</sup> Even though there has been a wave of arrests and prosecutions for these purse parties,<sup>206</sup> consumers and even the “housewives” selling the goods continue their illegal trade.<sup>207</sup> It is an assumption, if not common knowledge, that criminal penalties for counterfeit trafficking “are not being aggressively enforced.”<sup>208</sup> Citizens will rarely report violations,<sup>209</sup> and even if they wanted to, they may not know whom to inform. Additionally, many Americans believe the sale of counterfeit merchandise is not a crime because it goes on in malls, on street corners, in broad daylight, and often in front of police.

Not only does the public dismiss the crime of trafficking in counterfeit goods, but law enforcement agencies also tend to not

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<sup>201</sup> See Willard Statement, *supra* note 197.

<sup>202</sup> Mele, *supra* note 140.

<sup>203</sup> *Id.*

<sup>204</sup> See Beauprez, *supra* note 122.

In two years, [one woman] has made from \$2,000 to \$4,000 a month selling purses at parties twice a week. The sales, which she said she does not report as income or remit sales tax on, have allowed her to quit her marketing job and stay home with her 2-year-old daughter. It also helped her and her husband buy a four-bedroom home in the Denver suburbs.

*Id.*

<sup>205</sup> See *id.*

<sup>206</sup> See, e.g., *id.*; Marney Rich Keenan, *It's Out of the Bag: Knockoff Purse Parties Can Be Illegal*, DETROIT NEWS, Nov. 12, 2003, at 1D.

<sup>207</sup> See *supra* note 204; cf. James Quirk, *Shore Men Held in Prescription Drug Ring: Yearlong FBI Probe Leads to 17 Arrests*, ASBURY PARK PRESS, Sept. 10, 2004, at B1 (noting the individuals charged profited so much that the counterfeit drug ring was their sole business/occupation).

<sup>208</sup> Silvestrini, *supra* note 115.

<sup>209</sup> See *id.*

take it seriously.<sup>210</sup> Most prosecutions of trademark counterfeiting involve large criminal organizations, even though the problem of trafficking in false merchandise is widespread and often exacerbated by smaller operations.<sup>211</sup> Additionally, those criminal organizations not involved in other illegal activities are unlikely to be prosecuted.<sup>212</sup> On a state level, many traffickers in counterfeit goods run small, local operations that the police see daily but mostly ignore.<sup>213</sup> By not stopping the sales, the local police force appears to be condoning the act. And even if action is taken, it is likely that law enforcement may not know the letter of the law.<sup>214</sup>

Timothy Trainer, President of IACC, correctly observes that “the problem grows because of a strong belief among those who do this that they are unlikely to get caught and to face severe sanctions.”<sup>215</sup> Without some sort of accountability placed on buyers and law enforcement agencies alike, this pattern of criminal practice will continue.

#### *E. Current Remedial Measures*

##### *1. Educating the Public*

Both government agencies and American business are currently trying to raise public awareness about the social and economic detriments caused by trafficking in counterfeit goods.<sup>216</sup> General Motors has an information web page to educate consumers on counterfeit automobile parts.<sup>217</sup> U.S. Immigration and Customs

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<sup>210</sup> See PARADISE, *supra* note 1, at 253.

<sup>211</sup> See *id.*

<sup>212</sup> See, e.g., *id.*

<sup>213</sup> See *id.* (stating that “the primary offenders in many large cities are local street peddlers”).

<sup>214</sup> See *id.* at 253–56 (“Even when the situation demands action, the police are unsure of what course of legal action to pursue.”).

<sup>215</sup> Trainer Testimony, *supra* note 5.

<sup>216</sup> See, e.g., Cassidy, *supra* note 112 (reporting that eBay, working in conjunction with American companies, has a link where users can notify the service of an auction which involves counterfeit merchandise); Josee Valcourt, *Knockoff Handbags Popular But Costly to U.S. Retailers*, CLARION-LEDGER, Feb. 29, 2004, at C1 (reporting that Coach, Inc. provides a number that consumers can call if they have knowledge or suspicion of any counterfeit Coach merchandise).

<sup>217</sup> See PARADISE, *supra* note 1, at 256.

Enforcement has a complaint referral form available to anyone who wants to report suspected counterfeiting.<sup>218</sup> Internet auctioneer eBay has the Verified Rights Owner Program (VeRO) whereby buyers and sellers can notify the company if they suspect that an auction contains counterfeit merchandise.<sup>219</sup> Even the NIPLECC is awaiting funding so it can start “one of the most important NIPLECC initiatives . . . a public awareness campaign on IP piracy and counterfeiting.”<sup>220</sup> Yet, education has proven to be ineffective because of the general perception that the sale of knockoffs is legal, and more importantly, because one must be looking for information on trademark infringement to come across these education programs. Moreover, even when education does reach consumers, they may just prefer to ignore it. Consequently, tactics more aggressive than education are needed.<sup>221</sup>

## 2. Victims React: Companies Take Control

Companies have long had the ability to bring civil suits against infringers of their products.<sup>222</sup> Unfortunately, counterfeiters are often hard to find, and if they are found, it is unlikely they will be able to pay the damages a court awards.<sup>223</sup> Civil suits are also not

<sup>218</sup> U.S. Immigration and Customs Enforcement, *National IPR Coordination Center Complaint Referral Form*, at <http://www.ice.gov/graphics/cornerstone/ipr/iprform.htm> (last visited Mar. 25, 2005).

<sup>219</sup> *Verified Rights Owner (VeRO) Program*, at <http://pages.ebay.com/help/confidence-vero-rights-owner.html> (last visited Mar. 25, 2005).

<sup>220</sup> *Pirates of the 21<sup>st</sup> Century Hearing*, *supra* note 176, at 46.

<sup>221</sup> *But cf. Counterfeiting and Theft of Tangible Intellectual Property: Challenges and Solutions: Hearing Before the S. Comm. on the Judiciary*, 108th Cong. (2004) [hereinafter Hatch Statement] (statement of Senator Orrin G. Hatch), at [http://judiciary.senate.gov/member\\_statement.cfm?id=1119&wit\\_id=2628](http://judiciary.senate.gov/member_statement.cfm?id=1119&wit_id=2628) (Mar. 23, 2004). “I agree with the [U.S.] Chamber [of Commerce] that the industries that depend on intellectual property rights need to re-educate the public about the continuing importance of those rights.” *Id.*

<sup>222</sup> See, e.g., Lanham Act of 1946, 15 U.S.C. §§ 1051–1127 (2002); Michael Bobelian, *Tiffany and eBay Clash over Sales of Fake Goods*, 231 N.Y. L.J. 1 (2004) (reporting that Tiffany and Co. has sued eBay, “accusing it of trademark infringement by facilitating and promoting the sale of tens of thousands of pieces of counterfeit Tiffany jewelry”), available at <http://www.law.com/jsp/article.jsp?id=1090180362167> (last visited Mar. 25, 2005); Cathleen Flahardy, *Tiffany & Co. Cracks Down on eBay Counterfeiters*, CORP. LEGAL TIMES, Sept. 2004, at 18.

<sup>223</sup> See, e.g., Miles Socha & Ross Tucker, *LVMH Scores One Against Knockoffs*, WOMEN’S WEAR DAILY, Sept. 1, 2004, at 3 (“If all the counterfeiters are found, identified

the most successful outlets for jilted companies because trademark violations can happen without the rightful owner realizing that someone is profiting from their mark.<sup>224</sup> In these situations, in particular, the government is needed to investigate infringement.

In recent years, however, companies have stopped relying solely on the law to provide remedies for infringement. Instead, they have become more pro-active in the fight against trademark counterfeiting. Businesses have not only joined together in organizations like the IACC and posted consumer information on their Web sites, they have become aggressive about investigating and informing the government of counterfeit rings.<sup>225</sup>

In September 1995, one of the largest counterfeit seizures occurred in the United States<sup>226</sup> after Chanel, Inc. contributed approximately \$1 million to U.S. Customs' Operation Pipeline.<sup>227</sup> Counterfeiting was so problematic for Chanel in the early 1990s that it set up a fake storefront in Chinatown, New York City to "penetrate the clandestine trade."<sup>228</sup> One of the criminals arrested worked as an informant with Chanel; U.S. Customs then joined the fight in 1992 and together they formed Operation Pipeline.<sup>229</sup> Chanel, however, was faced with the problem of dealing with U.S. Customs offices in three different states, the Department of Justice, and local enforcement agencies because various branches of U.S. Customs would drop out mid-way through the operation.<sup>230</sup> Operation Pipeline eventually resulted in the confiscation of \$27

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and forced to pay the damages – an unlikely scenario – LVMH could see a total award of \$464 million.”).

<sup>224</sup> Cf. IP CRIMES MANUAL, *supra* note 7, § VI.B.2 (discussing why RICO charges could be an effective alternative to combat IP crimes).

<sup>225</sup> See, e.g., Hubbard Statement, *supra* note 136. The Pharmaceutical Research and Manufacturers of America (“PhRMA”) is an organization, similar to the IACC, made up of various businesses whose products are likely to be targets of counterfeiting, though the businesses which comprise PhRMA are solely pharmaceutical and biotechnology companies. See *id.* In April 2003, PhRMA announced an initiative requiring it to report to the FDA regarding possible counterfeit drugs being imported in the United States. See *id.* This voluntary initiative stems from the investigations that pharmaceutical companies have often conducted on their own. See *id.*

<sup>226</sup> See PARADISE, *supra* note 1, at 256.

<sup>227</sup> *Id.*

<sup>228</sup> *Id.*

<sup>229</sup> See *id.*

<sup>230</sup> *Id.* at 257.

million in counterfeit merchandise made in South Korea and the indictment of forty-three members of the trafficking chain.<sup>231</sup> Chanel's determination to bring infringers of their trademarks to justice marked the arrival of large companies becoming involved in, and often initiating investigations into, counterfeit operations.

### III. POSSIBLE AVENUES TO CURTAIL TRAFFICKING IN COUNTERFEIT GOODS

On March 23, 2004, Christopher Wray, Assistant Attorney General for the Criminal Division of the Department of Justice, addressed the Senate Judiciary Committee on Counterfeiting and Theft of Tangible Intellectual Property.<sup>232</sup> Wray testified:

We are at a pivotal time in the history of intellectual property rights enforcement. A number of factors have come together to create unprecedented challenges to intellectual property rights holders and to law enforcement. Some of these factors include the fact that: [1.] The value of intellectual property is increasing; [2.] It is now cheap and easy to reproduce and distribute copyrighted and trademarked products; [3.] Millions of illegal copies can be disseminated throughout the world with the simple click of a button. This makes detection more difficult than in the past; [4.] Every copy—whether in physical form or online—is perfect or near perfect; [and 5.] There is only sporadic and inconsistent enforcement throughout the world, which is compounded by the emergence of organized crime syndicates in international piracy and counterfeiting.<sup>233</sup>

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<sup>231</sup> *Id.* The confiscated merchandise wound up not only infringing Chanel's trademark, but also others such as FILA, Louis Vuitton, and Reebok. *Id.*

<sup>232</sup> *Counterfeiting and Theft of Tangible Intellectual Property: Challenges and Solutions: Hearing Before the S. Comm. on the Judiciary*, 108th Cong. (2004) (statement of Christopher Wray, Assistant Attorney General, Criminal Division, U.S. Dep't of Justice), at [http://judiciary.senate.gov/testimony.cfm?id=1119&wit\\_id=3192](http://judiciary.senate.gov/testimony.cfm?id=1119&wit_id=3192) (Mar. 23, 2004).

<sup>233</sup> *Id.*

Counterfeiters have become experts at infringing on trademarks and evading the law.<sup>234</sup> Timothy Trainer, in his testimony before the House Committee on International Relations, made various suggestions to reduce trafficking in counterfeit goods.<sup>235</sup> The IACC lobbied, for example, that § 2320 should be strengthened, that investigations into counterfeit rings should become a priority of federal law enforcement agencies so as to facilitate prosecutions, and border security should be heightened with regard to counterfeit products.<sup>236</sup> Without stronger protection, trademarks will lose their value and place within American business transactions.

Congress enacts strong penalties and enforcement strategies for crimes, such as drug distribution and use, that it believes are major problems;<sup>237</sup> in other words, Congress acts when it wants to. It needs to act now. Industries are taking counterfeit goods trafficking seriously; one need only look at the number of initiatives created and the amount of resources put towards the problem.<sup>238</sup> Industries also continue to lobby the federal government to take the problem seriously by increasing protection of trademarks. As Christopher Wray implied in his testimony, the time is ripe for legislative, and executive, action.<sup>239</sup> Without more concrete changes regarding the way criminal trademark cases are handled, the government's purported desire to curtail trademark infringement is just rhetoric.

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<sup>234</sup> See *A System Overwhelmed Hearing*, *supra* note 150, at 87 (statement of Dr. Cesar Arias, Drug Inspector Supervisor, Fla. Dep't of Health, Bureau of Statewide Pharm. Servs.). "Shell corporations" are established in different locales from where the trafficking occurs, especially in the area of counterfeit pharmaceuticals, to create "false pedigree papers" so that they can sell to consumers and wholesalers under the guise of a legitimate business. *Id.*

<sup>235</sup> See Trainer Testimony, *supra* note 5.

<sup>236</sup> *Id.* (arguing that counterfeit products impact national economic security).

<sup>237</sup> See discussion *infra* notes 242–43 and accompanying text.

<sup>238</sup> See discussion *supra* Part II.E.2.

<sup>239</sup> See *supra* notes 232–33 and accompanying text.

*A. Strengthening 18 U.S.C. § 2320*

## 1. Shifting the Burden: Placing the Onus on the Buyer

Counterfeiting defrauds consumers who unwittingly purchase fake goods. These consumers lose money on cheap merchandise and will eventually lose faith in the company whose product they intended to buy.<sup>240</sup> The defrauded consumers often are not the problem, however. Most consumers knowingly engage in the purchasing of counterfeit goods and continue the cycle of the crime.<sup>241</sup> If the government wants to treat trafficking in counterfeit goods as seriously as it claims to, § 2320 needs to be amended to make consumers accountable and liable.

The government is accustomed to putting the onus on buyers when it wants to diminish or eradicate a particular product that has infiltrated American society. Under the Uniform Controlled Substances Act,<sup>242</sup> a person who knowingly or intentionally purchases specific quantities of the enumerated illegal substances is criminally liable.<sup>243</sup> Amending § 2320 to include language such as, “any individual can be charged under this statute if they knowingly and intentionally purchase counterfeit goods,” would give counterfeit merchandise the same stigma as drugs.<sup>244</sup>

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<sup>240</sup> See generally Leahy Statement, *supra* note 109 (discussing how consumers are injured when “they think they are buying a ‘brand name’ product but end up with a shoddy imitation instead”).

<sup>241</sup> Counterfeit goods: “Illegal? For sellers, yes. For buyers, no. Trafficking fake products is a federal crime, but forking over cash for a good deal is fine.” Alison Neumer, *Faux Real: For Some Buying Fake Designer Duds Is a No-Brainer, but Does Going Cheap End Up Costing You the Most?*, CHI. TRIB., Dec. 15, 2004, at 48.

<sup>242</sup> Unif. Controlled Substances Act, 9 U.L.A. 1 (1994), available at <http://www.law.u-penn.edu/bll/ulc/fnact99/1990s/ucsa94.pdf> (last visited Mar. 25, 2005).

<sup>243</sup> See Unif. Controlled Substances Act § 401(g), 9 U.L.A. 126, § 401(g). The enumerated substances include heroin and cocaine, for example. See *id.* Under this provision, however, possession alone is also criminalized. See *id.* It is interesting to note that if counterfeit merchandise were truly to be treated in the same fashion as drugs by the federal government, possession alone of ersatz merchandise would also be criminalized. This most likely could never happen since purchasers would argue they were unaware the goods they purchased were counterfeit.

<sup>244</sup> “The legislative history [of the Anticounterfeiting Consumer Protection Act of 1996] highlights testimony from Leonard Walton, Deputy Assistant Commissioner of Investigations for the United States Customs Service, comparing the pattern of criminal

Consumers will be deterred from purchasing the ersatz products because of the possibility of fines and jail time.<sup>245</sup> Additionally, if the government makes it a crime to purchase counterfeit goods, many out-in-the-open street vendors and mall kiosks will be forced to close up, limiting the availability of these products to the public.<sup>246</sup> While an increased quantity of counterfeit bags is not nearly as menacing as the proliferation of drugs in society, counterfeit pharmaceuticals and car parts affect the public health and welfare just as much as drug abuse.

The Uniform Controlled Substances Act may not be sufficiently analogous to § 2320 since purchasers of drugs are getting the actual product they sought. Yet, the publicity and notoriety that would follow prosecutions of purchasers of counterfeit goods would undoubtedly act as a large deterrent. In the last two years, there has been a wave of newspaper and magazine articles addressing the indictment of counterfeit traffickers or how law enforcement agents raided a “purse party.”<sup>247</sup> Though there may be a backlash from consumers who argue they cannot afford the price of an original product,<sup>248</sup> over time, due to publicity and the establishment of effective enforcement measures, consumers will begin to accept that, like robbery or fraud, purchasing in counterfeit goods is a crime.

Aside from consumer backlash, amending the statute to include liability on buyers may cause protest from Congressmen and Congresswomen who are unwilling to upset their constituents, law enforcement agents who do not want to enforce the law,<sup>249</sup> and civil liberties organizations. Nonetheless, when the government

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activity and organizational structure associated with counterfeiting to that of drug trafficking.” IP CRIMES MANUAL, *supra* note 7, § VI.B.2.

<sup>245</sup> See *supra* notes 77–78 and accompanying text.

<sup>246</sup> See *supra* note 141. But see <http://www.fashionknockoffs.com> (last visited Mar. 27, 2005) (Many products that are “reproductions or copies” of various luxury items are not counterfeit, thus there would still be viable outlets to get these copies.). “Lookalikes toe the line of violating copyrights or trademarks, experts explain, but it’s up to the court to decide the degree. Counterfeiters might switch the letters, labeling it ‘Kate Spate’ or ‘Ralex,’ or leave off the label entirely in hopes of sidestepping the law.” Neumer, *supra* note 241.

<sup>247</sup> See discussion *supra* Parts II.A.1, II.D.

<sup>248</sup> Cf. Sodipo, *supra* note 14, at 231.

<sup>249</sup> Cf. *id.*



believes a product, or a certain class thereof, is a major threat to the American economy and public, it will enforce provisions such as the one proposed, regardless of the protests of lobbying organizations and citizens. Additionally, Congressional action often plays a pivotal role in “norm shifting” within American society. Stronger legislation placing a burden on purchasers of counterfeit goods, coupled with careful prosecutorial discretion, would undoubtedly demonstrate the seriousness of Congress’ purpose in enacting such legislation, and may eventually lead to a change in the goods consumers purchase.

## 2. Amending Language of the Current Statute

Trademarks are unique in that they do not exist apart from the goods or services upon which they are attached.<sup>250</sup> Courts today strive to protect trademarks because they represent that the merchandise they are attached to comes from a particular manufacturer, and this in turn gives the manufacturer the incentive to ensure a high level of quality.<sup>251</sup> Common law states that ownership of a trademark comes through use; thus, the registration requirement could be taken out of § 2320<sup>252</sup> to provide a wider range of protection to a greater number of people, especially small business owners. If the fear that removing the requirement of registration from the statute would deny adequate protection and remedies for legitimate trademarks, the legislature should look to—or even pressure—the U.S. Patent and Trademark Office to make registering a mark as simple a process as is possible.<sup>253</sup> The language of the statute, however, would still need to be broadened to include a large amount of ersatz merchandise which does not fall under § 2320’s definition of a counterfeit mark.<sup>254</sup>

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<sup>250</sup> See FEDERAL PROSECUTION MANUAL, *supra* note 1, at 2.

<sup>251</sup> See *id.*

<sup>252</sup> See *supra* text accompanying note 56.

<sup>253</sup> “Largely to give small U.S. companies a leg up, the U.S. Patent Office will open a hotline, 1-866-999-HALT, to help businesses register their patents and trademarks around the world and to instruct them on lodging complaints.” King, Jr., *supra* note 112.

<sup>254</sup> See generally *United States v. Habegger*, 370 F.3d 441, 444–46 (4th Cir. 2004) (holding that the defendant was not liable under 18 U.S.C. § 2320 because although he did send counterfeit merchandise to another person, there was no consideration for the

The intention behind the importation of various counterfeit luxury items is to eventually sell them; yet, there are many ways counterfeiters can work around the statute. For example, infringers will import “counterfeit” bags unlabeled into the United States so that they can argue, if necessary, that they are not counterfeiting one specific product.<sup>255</sup> Under *Baker* and *Infurnari*, the only *mens rea* requirements for a defendant are that he (i) knows the products are counterfeit and he (ii) intends to sell the products.<sup>256</sup> Even though the above example seemingly satisfies both *mens rea* requirements, this type of trafficking can go unpunished.<sup>257</sup> The language of the statute needs to be amended to account for the now-common practice of bringing unlabeled goods into the country and then placing the counterfeit trademarks on them within the United States. This proposal goes hand-in-hand with enforcement since it will most likely be Customs and border agents investigating these products.<sup>258</sup> Whereas normally products without false trademarks go through Customs either undetected or unable to be confiscated, these agents should be aware and trained to spot counterfeit, but unlabeled, goods which are eventually intended for sale.

Situations also arise where the actual counterfeit marks are not prohibited by 18 U.S.C § 2320.<sup>259</sup> In the *United States v. Giles*,<sup>260</sup>

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shipment and thus the defendant’s action was not considered trafficking in counterfeit goods according to the statute).

<sup>255</sup> E.g., Tracie Rozhon, *Handbag Maker Takes Aim at Knockoffs*, N.Y. TIMES, Oct. 29, 2002, at C4.

<sup>256</sup> See *United States v. Baker*, 807 F.2d 427, 428–29 (5th Cir. 1986); *United States v. Infurnari*, 647 F. Supp. 57, 58 (W.D.N.Y. 1986); *supra* notes 62–76 and accompanying text.

<sup>257</sup> See Willard Statement, *supra* note 197.

We are now observing that in China, the assembly line and the packaging line are split as a deliberate strategy to avoid prosecution under current U.S. law. Counterfeiters ship their phony products to the United States without any brand markings, and the products pass through the port with no outward sign of any violation.

*Id.*

<sup>258</sup> See discussion *supra* Part II.B (showing that the United States Immigration and Customs Enforcement is often an integral member of many agencies formed to combat IP crimes).

<sup>259</sup> “Current federal criminal law, as interpreted by the courts, allows counterfeiters to escape prosecution for trafficking in stolen goods by simply selling or distributing the

the Tenth Circuit, in a case of first impression, held that the defendant, who was trafficking in counterfeit trademarks not attached to goods, could not be liable under § 2320.<sup>261</sup> Giles, the defendant, sold wholesale sets of “patches” bearing the logo of the high-end luggage company Dooney & Bourke and argued that he had not violated § 2320 since the patches were not connected to any goods, as the statute requires.<sup>262</sup> The Court examined the Lanham Act and 18 U.S.C. § 2320, finding that both statutes indicate “that ‘goods’ were intended to be viewed as separate and distinct from the marks they carry,” and that for a mark to be counterfeit, that mark needs to be “used *in connection with goods*.”<sup>263</sup> Since § 2320 does not prohibit trafficking in counterfeit labels and 18 U.S.C. § 2318, the federal criminal statute for trafficking in labels, only applies to specific products, Giles was acquitted of all criminal charges.<sup>264</sup> If amending the language of § 2320 to include trafficking in unlabeled goods, as noted above, seems like a severe proposition, an alternative would be to amend the statute to criminalize the actual counterfeit marks.<sup>265</sup> Such a change would conform with the legislative intent to protect companies’ reputations because it would increase border seizures of the marks intended to be placed on unlabeled merchandise and thwart counterfeiters’ attempts to skirt § 2320.

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counterfeit labels separately from the counterfeit products.” Willard Statement, *supra* note 197.

<sup>260</sup> 213 F.3d 1247 (10th Cir. 2000).

<sup>261</sup> *Id.* at 1248.

<sup>262</sup> *Id.* at 1248–49. “The head of Dooney & Bourke’s anti-counterfeiting program conceded that if the leather patch were attached to other unregistered items, such as blue jeans, it would not constitute a trademark violation.” *Id.* at 1252.

<sup>263</sup> *Id.* at 1249 (emphasis in original).

<sup>264</sup> *See id.* at 1251, 1253. Section 2318 prohibits trafficking in any “counterfeit label affixed or designed to be affixed to a phonorecord, or a copy of a computer program or documentation or packaging for a computer program, or a motion picture or other audiovisual work.” 18 U.S.C. § 2318(a) (1996).

<sup>265</sup> Since May 20, 2004, a proposed amendment to 18 U.S.C. § 2320 has been awaiting review by the House Subcommittee on Crime, Terrorism, and Homeland Security. *See* Stop Counterfeiting in Manufactured Goods Act, H.R. 4358, 108th Cong. (2004), available at [http://www.aipia.org/Content/ContentGroups/Legislative\\_Action/108th\\_Congress1/House/hr4358.pdf](http://www.aipia.org/Content/ContentGroups/Legislative_Action/108th_Congress1/House/hr4358.pdf) (last visited Jan. 18, 2005). This amendment would criminalize trafficking in counterfeit marks. *See id.*

### 3. Stiffer Penalties

Current criminal penalties are not severe enough to deter further criminal activity among those convicted, let alone the others with whom they operate.<sup>266</sup> Often, defendants receive “substantially lesser sentences” than are available under § 2320.<sup>267</sup> It is typical to see a trafficker possessing thousands of counterfeit goods found guilty, but only being penalized with relatively small fines and less than a year in jail.<sup>268</sup>

There are two reasons why sentencing for trademark counterfeiting crimes is low. First, prosecutors choose not to prosecute under 18 U.S.C § 2320, which provides adequately harsh penalties. Second, judges many not want to enforce strong penalties against convicted counterfeiters because many of them are illegal aliens or immigrants, and not the actual heads of the distribution rings. For trafficking in counterfeit goods to be taken seriously by distributors and purchasers, the government needs to enforce the penalties under the Trademark Counterfeiting Act of 1984. Also, establishing a hierarchy of the criminal act within the statute—such as having stiffer sanctions for the head of a counterfeit distribution ring, and decreasing penalties for purchasers and small-time sellers of fake goods on the street or in their homes—would allow for the equitable determination of penalties sought against counterfeiters. Minor changes, such as the

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<sup>266</sup> Cf. *Counterfeit Bulk Drugs Hearing*, *supra* note 132, at 312 (prepared statement of Patricia L. Maher, Deputy Assistant Attorney General, Civil Division, U.S. Dep’t of Justice).

The operations of some drug counterfeiters are much the same as those of the narcotics trade, crossing many borders and involving the use of clandestine facilities. In such circumstances, FDA’s regulatory measures and controls are less likely to uncover the activity and impose a punishment sufficient to act as a deterrent.

*Id.*

<sup>267</sup> Coblenz, *supra* note 4, at 282.

<sup>268</sup> See, e.g., *United States v. Hon*, 904 F.2d 803, 804 (2d Cir. 1990) (In this case involving the seizure of 2,600 counterfeit watches, the Second Circuit affirmed a sentence of five months in prison, five months in a community treatment center and a \$3,000 fine imposed after a jury found the defendant guilty of two counts of trafficking and attempting to traffic. A second defendant, who pled guilty before trial, had been sentenced to thirty-six months probation and a \$6,000 fine.); Coblenz, *supra* note 4, at 281–82.

ones proposed, would set a tone in the judicial and executive branches that the Trademark Counterfeiting Act is an important statute which needs to be utilized more effectively.

*B. Better Enforcement Needed*

In 2003, only 120 investigative matters which fell under 18 U.S.C. § 2320 were referred to U.S. Attorneys, and only seventy cases were filed under the statute.<sup>269</sup> Of the concluded cases in 2003, thirty-five defendants pled guilty, but merely four were tried and found guilty.<sup>270</sup> Even with the passage and expansion of criminal statutes, trademark infringers still manage to remain under the radar.<sup>271</sup> “More enforcement is needed in light of [the] pernicious practices involving the theft of goods based on intellectual property rights.”<sup>272</sup>

The government seems to be constantly assigning more agencies to deal with the problem of counterfeit goods,<sup>273</sup> but many groups working independently to combat the same problem may not be an effective solution. Some of the major state and federal organizations, however, are successful in their efforts. The Department of Homeland Security, through its agencies ICE and CBP, has been working to seize goods as they enter the country.<sup>274</sup> ICE and CBP follow up any suspicious activity with further investigations and occasional seizures of products.<sup>275</sup> Similarly,

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<sup>269</sup> U.S. Dep’t of Justice, FY 2003 Performance and Accountability Report app. C (2004), *available at* <http://www.usdoj.gov/ag/annualreports/ar2003/index.html#toc> (last visited Mar. 25, 2005).

<sup>270</sup> *Id.* In 2002, only eighty-one cases were referred, fifty-two cases were filed, fifty-nine defendants pled guilty, and two were tried and found guilty. U.S. Dep’t of Justice, Fiscal Year 2002 Performance Report & Fiscal Year 2003 Revised Financial Performance Plan, Fiscal Year 2004 Performance Plan app. C, *available at* <http://www.usdoj.gov/ag/annualreports/pr2002/TableofContents.htm> (last updated Feb. 27, 2003).

<sup>271</sup> *See generally* Leahy Statement, *supra* note 109 (surveying the types of trademark counterfeiting that persist despite recent legislative changes).

<sup>272</sup> *Id.*

<sup>273</sup> *See* discussion *supra* Part II.B.

<sup>274</sup> *See Pirates of the 21<sup>st</sup> Century Hearing*, *supra* note 176, at 56–57 (prepared statement of Francis Gary White, Unit Chief, Commercial Fraud Division, Immigration and Customs Enforcement, Dep’t of Homeland Security).

<sup>275</sup> *See id.* at 56.

Florida established a statewide task force comprised of the Attorney General's Office of Statewide Prosecution, Florida Department of Law Enforcement, Medicaid Fraud Control Unit of the Attorney General's Office, and the Miami-Dade Police Department.<sup>276</sup> Since its inception, the joint task force has uncovered various illegal enterprises which are thought to sell counterfeit pharmaceuticals totaling approximately \$250 million a year.<sup>277</sup> The Florida task force and similar endeavors in other states are the leaders in uncovering what counterfeit products are being trafficked in the United States.<sup>278</sup>

Trademark counterfeiting is a crime under both state and federal law.<sup>279</sup> State agencies often work independent of their federal counterparts,<sup>280</sup> which can cause confusion and delays in investigations and prosecutions or an overlap of resources. Local and federal enforcement agents need to cooperate for a successful suppression of the counterfeit goods being trafficked into the country.<sup>281</sup> The lack of enforcement often has to deal with the fact that many local police, who would be instrumental in combating the trafficking of counterfeit goods, do not know the "letter of the law" and are slow to react to the sale of counterfeit goods.<sup>282</sup> Another enforcement problem is that "[i]nvestigators aren't terribly interested in frontline sellers unless it can lead them further up the

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<sup>276</sup> See *A System Overwhelmed Hearing*, *supra* note 150 at 85 (testimony of Dr. Cesar Arias, Drug Inspector Supervisor, Fla. Dep't of Health, Bureau of Statewide Pharm. Servs.).

<sup>277</sup> See *id.*

<sup>278</sup> See, e.g., *id.* at 87-88.

<sup>279</sup> See FEDERAL PROSECUTION MANUAL, *supra* note 1, at 52. It is a felony in New York to make a counterfeit trademark. See PARADISE, *supra* note 1, at 86.

<sup>280</sup> See generally South Carolina Secretary of State Mark Hammond's Office, *Counterfeit Goods Seized in Goose Creek*, at <http://www.scsos.com/PR/counterfeit.htm> (last visited Mar. 25, 2005) (providing information regarding a large counterfeit ring bust involving the South Carolina's Secretary of State Office and a private investigative firm, but not federal government agencies).

<sup>281</sup> To aid local police forces, member companies of the IACC have implemented training programs which teach task forces how to recognize ersatz products. See Valcourt, *supra* note 216.

<sup>282</sup> Beauprez, *supra* note 122. "The Denver Post questioned a Denver police spokesperson; [a representative] of the Downtown Denver Partnership civic group; and [the] head of the city's office of excise and licensing. None of them seemed to know the letter of the law on this matter, and referred questions to each other's organizations." *Id.*

criminal food chain to the illegal distributors and manufacturers.”<sup>283</sup> It appears that many federal agencies discuss trademark infringement, but will act quickly only if there is an immediate danger attached to the sale of a counterfeit good.<sup>284</sup> The creation of more task forces comprised of *both* federal and state agents would enable quick, efficient, and frequent seizures of counterfeit goods. The federal government should not need prompting from the private sector, as it did in Chanel’s Operation Pipeline,<sup>285</sup> to initiate enforcement operations with local organizations since local enforcement agencies are the ones who can combat the problem on a daily basis if given the proper training and resources. If both federal and state cooperation would cause more delay and confusion, targeted funding to state organizations may supplement—or even be more effective—than federal agency activity for counterfeit goods which have already entered the American marketplace. Additionally, the current enforcement organizations, on both the federal and state level, should report their strategies and statistics, both positive and negative, to the federal government. As Senator Orrin Hatch stated, “Congress must have input from our enforcement agencies and our industries if it is to assure that enforcement tools are available and effective.”<sup>286</sup>

### C. Working with Victimized Companies

The U.S. government speedily investigates and prosecutes infringement cases that affect the public welfare but not those which purely affect the economy. Infringement against luxury goods, however, gets the most press and independent resources from companies that seek to combat trademark counterfeiting.<sup>287</sup> The Recording Industry Association of America, for example, meets with law enforcement agencies throughout the United States

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<sup>283</sup> Neumer, *supra* note 241.

<sup>284</sup> See, e.g., *supra* Part II.A.2.

<sup>285</sup> See *supra* notes 226–31 and accompanying text.

<sup>286</sup> Hatch Statement, *supra* note 221.

<sup>287</sup> “Americans rely on the brands [trademarks and service marks] represent when purchasing and using all manner of goods and services. This reliance gives companies an incentive to maintain quality control over the goods they produce and mark.” IP CRIMES MANUAL, *supra* note 7, § II.

to train them to spot counterfeit merchandise and teach which laws are applicable to their investigations.<sup>288</sup> General Motors also works with U.S. Customs to combat counterfeit car parts.<sup>289</sup> The federal government should tap into these corporate resources. By working with companies that have already shown they are willing to devote time and money to the problem of counterfeiting goods, some of the burden for investigation and seizure would be lifted off the shoulders of the government. Moreover, additional resources for investigations into certain counterfeit rings, such as luxury items, could help to uncover information about other types of ersatz merchandise, such as of pharmaceuticals, which the government asserts is a more pressing issue.

### CONCLUSION

The federal government and its agencies constantly speak of reforming and better enforcing domestic intellectual property laws, specifically the criminal laws;<sup>290</sup> however, their “progress has been limited at best.”<sup>291</sup> If intellectual property crimes were a priority for the U.S. government then there would be substantive changes in the criminal laws and the way they are enforced.

Underlying the legislation and enforcement problems are the federal government’s political economy reasons for the way in which trademark crimes are investigated and prosecuted. Much of the debate on counterfeit goods trafficking is government rhetoric; with trademark crimes, certain counterfeit goods are labeled as a serious concern by the government, but those goods are not the subject of many prosecutions.

The government should make a hierarchy of counterfeit goods and the harms they pose, as opposed to attempting to address trademark counterfeiting as one, broad problem which can be

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<sup>288</sup> See PARADISE, *supra* note 1, at 256.

<sup>289</sup> See *id.*

<sup>290</sup> King, Jr., *supra* note 112. “The [Bush] administration plans to push for an overhaul of U.S. intellectual property laws, with an emphasis on toughening criminal penalties.” *Id.*

<sup>291</sup> Jeffrey Sparshott, *Stolen Property*, WASH. TIMES, Sept. 29, 2004 (commenting on the Bush Administration’s desire to curtail counterfeit products coming from China).



eliminated in a “uniform sweep.” Prosecutions of trademark infringement involve big companies who can give money to investigations and enforcement, and unfortunately, that often leads to confiscation of counterfeit purses or clothing.<sup>292</sup> Governmental resources are not being used to eradicate the real counterfeit problems. While companies who make luxury items should be protected, task-force efforts should not be singularly focused on finding counterfeit handbags. Counterfeit pharmaceuticals, for example, should become a focused, primary target of government resources and agencies.<sup>293</sup> The federal government maintains that counterfeit drugs are a major problem facing the U.S. because of the threat they pose to public safety; however, it cannot be overlooked that another, underlying reason why the government is so concerned with the importation of drugs is because it does not want consumers to purchase pharmaceuticals for a cheaper price than is offered in the U.S.<sup>294</sup> Additionally, the government repeatedly articulates counterfeit goods’ connections to terrorism, but it must be remembered that many of those statistics are actually compiled by private companies or organizations that have a strong desire to eradicate counterfeits of their products from the markets.<sup>295</sup> The federal government attempts to distort the way counterfeit goods, especially specific categories of goods, are viewed, but is falling short of doing anything substantive to stop the problem.

In October 2004, the Bush administration announced a new initiative to combat intellectual property theft called the Strategy

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<sup>292</sup> See, e.g., *United States v. Giles*, 213 F.3d 1247 (10th Cir. 2000) (charging defendant with trafficking in counterfeit labels of the high-end luggage company Dooney & Bourke); *United States v. Habegger*, 370 F.3d 441 (4th Cir. 2004) (charging defendant with trafficking in counterfeit Nike and Adidas T-shirts).

<sup>293</sup> See discussion *supra* Part II.A.2.

<sup>294</sup> See generally Susan Jaffe, *Canada Exporter Fills Prescriptions for U.S. Customers through the Bahamas*, SEATTLE TIMES, Sept. 2, 2004, at A6 (discussing how the government purports that drugs imported from Canada are considered a problem by the FDA because “the more you spread out across the world, the more opportunities there are for the drug to be counterfeit”). “The US is the only developed country that does not regulate prescription drug prices in some way . . . . The big drug companies and their friends in the US government want to force other countries, through trade agreements, to allow prices to rise . . . .” Angell, *supra* note 156.

<sup>295</sup> See *supra* note 116 and accompanying text.

Targeting Organized Piracy (“STOP”).<sup>296</sup> The departments of Commerce, Justice, and Homeland Security and the Office of the U.S. Trade Representative will collaborate on the program,<sup>297</sup> which the government hopes will provide “a unified approach for agencies working together more effectively and more efficiently.”<sup>298</sup> Interestingly, STOP was introduced a month before the presidential election as the campaign focus shifted to the economy<sup>299</sup> and the “record-setting” trade deficit.<sup>300</sup> The government must seriously examine the problem of trademark counterfeiting and determine effective solutions apart from politics and political incentives; an initiative, such as STOP, which effectively does the same job as already existing organizations is not progress.<sup>301</sup>

The federal government needs to change its political economy motivation underlying American anti-counterfeiting policy. Aside from new investigative and enforcement initiatives, the American marketplace is additionally still in need of stronger anti-counterfeit legislation. The problem of trafficking in counterfeit goods must be firmly and realistically addressed by the United States government before it escalates to a point where the American consumer lacks confidence in any product they purchase.

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<sup>296</sup> See Stephen Bernard, *U.S. Cracks Down on Product Counterfeiting*, CBS MarketWatch, Oct. 4, 2004.

<sup>297</sup> *Id.*

<sup>298</sup> *News Conference Announcing an Initiative, “Strategy Targeting Organized Piracy,” (STOP), To Strengthen Protection of American Innovation in Intellectual Property*, FED. NEWS SERVICE, Oct. 4, 2004 [hereinafter *STOP News Conference*] (quoting Donald Evans, Commerce Secretary). “We’re elevating our cooperation between the federal government, the private sector, and many of our trading partners in aggressive, unified effort against piracy and intellectual property right theft.” *Id.*

<sup>299</sup> Sparshott, *supra* note 12; see also King, Jr., *supra* note 112.

<sup>300</sup> King, Jr., *supra* note 112. *But see STOP News Conference, supra* note 298 (“We’ve recognized for some time that we need to take intellectual property right protection to the next level, and STOP is the weapon that will get us there.”).

<sup>301</sup> See discussion *supra* Part II.B.